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The Labour Theory of Value

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K A R L M A R X

Oxford University Press

London Edinburgh Glasgow Copenhagen

New York Toronto Melbourne Cape Town

Bombay Calcutta Madras Shanghai

Humphrey Milford Publisher to the UNIVERSITY

The Labour Theory of Value
in
KARL MARX

by

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191902
25.10.24.

LONDON
OXFORD UNIVERSITY PRESS
HUMPHREY MILFORD

1923

Printed in England

PREFACE

THIS book has arisen out of a course of Lectures originally delivered, under the title of *Justice and Wages*, in 1913; but it differs very considerably from the Lectures, by alterations, additions, and omissions. I believe that the theory which finds an absolute measure of value for things in the labour embodied in them is fundamentally false, and that the widespread acceptance of it among the 'labouring classes' is doubly mischievous. On the one hand, it makes their justified resentment at the working of the economic order take the form of denouncing one definite alleged injustice; and this gives heat rather than light to their examination of schemes of reform. On the other hand, it exasperates those whom they attack by the injustice of the particular allegation; and this alienates sympathy. The theory, I know, has been rejected, and, as I think, refuted by others before me. I wish to make converts, not to preach to the converted. This is the reason why I have gone at such length into the argument of Marx, to whose advocacy the theory owes most of its acceptance; with what prospect of success, I cannot judge.

I have to acknowledge gratefully the help received

from the criticisms and suggestions of three friends who were good enough to read the book in type-script : Mr. H. Clay, Professor of Political Economy in the University of Manchester ; Mr. H. A. Prichard, Fellow of Trinity College, Oxford ; and Dr. E. Cannan, Professor of Political Economy in the University of London. The passage on the determination of prices, pp. 123-9, would be more inadequate than it is, but for Professor Clay, and the argument of pp. 138-45 was first developed in correspondence with him, though, I must admit, in the way of opposition ; to Dr. Cannan I owe some of the historical references in the Introduction ; and Mr. Prichard has improved the argument or exposition in more places than I can say, by his close and patient examination. But they have no responsibility for any of my errors.

I

INTRODUCTION

It is perhaps true to say that there are three outstanding elements in Karl Marx's economic teaching. One is the economic interpretation of history, the view that the real clue to the explanation of the course of events in the history of mankind is to be found in the economic conditions under which men live.¹ One is his analysis of the actual course and growth of modern capitalistic industry, especially in England, and the contention that it is inevitably moving towards its own collapse, and supersession by a communistic state; though whether the transition was to come by means of an interlude of bloody revolution, or by a relatively peaceful development, his disciples are not agreed. The third is his theory of value—that the exchange value of commodities arises from and is to be measured by the labour put into them, and that labourers under the capitalistic system are exploited, because the commodities which they receive in return for their labour embody less labour than what they exert, and are therefore of less value than what they have created.

With the first two of these doctrines the present book is not concerned. It may be that Marx under-estimated

¹ For a brilliant sketch of some of the ways in which economic facts do determine the broad course of history, cf. Professor J. L. Myres, *Dawn of History*, in the Home University Library.

the part which ambition, fear, sentiment, goodwill, reason, and religion have played in the determination of events. It may be that in spite of the tendency of such prophecies as his to fulfil themselves, the future of capitalistic societies will not accord with his prediction. But these are, or will be, questions largely of historic fact. His doctrine of value is much more a question of theory, and may be examined and, as I believe, refuted without the equipment of historical learning.

It might, indeed, seem that such an examination is to-day hardly needed. It has been done both before and since Marx wrote. For the theory of the connexion of value in things with the labour bestowed upon them is older than Marx, although not put forward before him in the same form, nor in one so elaborate and systematic. There are traces of it in Locke's *Second Treatise of Civil Government*. It is true that 'the intrinsic value of things' is there said to depend 'only on their usefulness to the life of man,'¹ although on some things, 'gold, silver, and diamonds', 'fancy or agreement have put the value . . ., more than real use and the necessary support of life'.² But in another place Locke writes that 'it is labour indeed that puts the difference of value on everything'³; 'whatever bread is more worth than acorns, wine than water, and cloth or silk than leaves, skin or moss, that is wholly owing to labour and industry'⁴; 'it is labour . . . which puts the greatest part of the value upon land, without which it would scarcely be worth anything'⁵; labour 'makes in great part the measure' of the value

¹ § 37.² § 46, cf. §§ 50, 184.³ § 40.⁴ § 42.⁵ § 43.

even of gold and silver.¹ No attempt is made to reconcile the apparent inconsistencies between some of these passages; nor is there really more involved in those which connect value with labour, than that labour is commonly required to bring things into that state, in which they are useful to the life of man, or the fancy of men sets a value on them. But the authority of the treatise may well have helped to popularize, though it could not make precise, the notion that value is somehow dependent upon labour. Of far greater influence, however, than any words of Locke have been the well-known statements of Adam Smith and of Ricardo. In the fifth chapter of the first book of the *Wealth of Nations* Adam Smith contrasts the real price of commodities, or their price in labour, with their nominal price, or price in money. 'The value of any commodity . . ., to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labour which it enables him to purchase or command. Labour, therefore, is the real measure of the exchangeable value of all commodities. . . . Labour was the first price, the original purchase money that was paid for all things. It was not by gold or by silver, but by labour, that all the wealth of the world was originally purchased; and its value, to those who possess it, and who want to exchange it for some new productions, is precisely equal to the quantity of labour which it can enable them to purchase or command.' These words

¹ § 50. It may be worth noticing that Aristotle, *Nichomachean Ethics*, V. v. 11, 1133^a 25-31, finds in demand or need the real source of exchange-value.

are referred to, and in part quoted, by Ricardo in the first chapter of his *Political Economy and Taxation*. He admits that 'there are some commodities the value of which is determined by their scarcity alone'; but these 'form a very small part of the mass of commodities daily exchanged in the market'. And 'in speaking', he says, 'of commodities, of their exchangeable value, and of the laws which regulate their relative prices, we mean always such commodities only as can be increased in quantity by the exertion of human industry, and in the production of which competition operates without restraint. In the early stages of society, the exchangeable value of these commodities, or the rule which determines how much of one shall be given in exchange for another, depends almost exclusively on the comparative quality of labour expended on each'. And, again quoting Adam Smith, he proceeds: 'That this is really the foundation of the exchangeable value of all things, excepting those which cannot be increased by human industry, is a doctrine of the utmost importance in political economy; for from no source do so many errors, and so much difference in opinion in that science proceed, as from the vague ideas which are attached to the word value.'

It will be noted that Ricardo here attaches two conditions to the doctrine that the exchangeable value of commodities depends on the quantity of labour expended on them; the supply must be capable of being increased by labour, and competition must operate without restraint on the production of them; and in the production he here means to include the disposal of them by sale. He points out farther in the

second section of the chapter that there are different qualities of labour, and these are held in different estimation; this estimation, he says, comes soon to be adjusted in the market, as Adam Smith had said that it is adjusted 'by the higgling and bargaining of the market'. It might be shown that there is a sense in which, when full force is given to these conditions and qualifications, the exchangeable value of commodities is roughly measurable by the labour required for producing them¹, though it is not Marx's sense; for though there is a correspondence between labour and value, the value is not constituted by the labour. But Ricardo's editor, McCulloch, makes more sweeping statements, forgetting Ricardo's conditions and qualifications. 'Labour', he says, 'is the only source of wealth. . . . An object which does not require any portion of labour to appropriate or to adapt it to our use, may be of the very highest utility, but, as it is the free gift of nature, it is utterly impossible it can possess the smallest value.'²

Against this doctrine very damaging criticism was directed long before Marx adopted and attempted to give a scientific justification of it in his *Capital*. 'If', wrote N. W. Senior,³ 'while carelessly lounging along the sea-shore, I were to pick up a pearl, would it have no value? Mr. McCulloch would answer that the value of the pearl was the result of my appropriative industry in stooping to pick it up. Suppose then that I met with it while eating an oyster? . . . It is true that, wherever there is utility, the addition of labour as

¹ Cf. *infra*, p. 135. ² *Principles of Political Economy*, pp. 66-72.

³ *Political Economy*, ed. 1850, p. 24.

necessary to production constitutes value, because, the supply of labour being limited, it follows that the object, to the supply of which it is necessary, is by that very necessity limited in supply. But any other cause limiting supply is just as efficient a cause of value in an article as the necessity of labour to its production. And, in fact, if all the commodities used by man were supplied by Nature without any intervention of human labour, but were supplied in precisely the same quantities as they now are, there is no reason to suppose either that they would cease to be valuable or would exchange in any other than their present proportions. The reply to Mr. Ricardo is, first, that the articles of wealth which do not owe the principal part of their value to the labour which has been bestowed on their respective actual production, form, in fact, the bulk of wealth, instead of a small and unimportant portion of it; and, secondly, that as limitation of supply is essential to the value of labour itself, to assume labour and exclude limitation of supply, as the condition on which value depends, is not only to substitute a partial for a general cause, but pointedly to exclude the very cause which gives force to the cause assigned.’¹ A similar reply had already been given by Richard Whately, in his *Introductory Lectures on Political Economy*, delivered at Oxford in 1831. He was illustrating the practice, in Political Economy, of introducing accidental circumstances along with the essential into the defini-

¹ The second part of this reply seems to be of more weight than the first, in which Senior overstates his case. As will be seen in Chapter v below, the reason why labour confers value on its products is that its products are wanted, and the labour therefore wanted that will produce them.

tions of its terms. 'A specimen of that introduction of accidental circumstances which I have been describing', he said, 'may be found, I think, in the language of a great number of writers, respecting wealth and value; who have usually made *Labour* an essential ingredient in their definitions. Now it is true, *it so happens*, by the appointment of Providence, that valuable articles are, in *almost* all instances, obtained by Labour; but still, this is an accidental, not an essential, circumstance. If the aerolites which occasionally fall, were diamonds and pearls, and if these articles could be obtained in no other way, but were casually picked up, to the same amount as is now obtained by digging and diving, they would be of precisely the same value as now. In this, as in many other points in Political Economy, men are prone to confound *cause* and *effect*. It is not that pearls fetch a high price *because* men have dived for them; but on the contrary, men dive for them because they fetch a high price.' ¹

Now Marx never really met the criticisms thus urged against the doctrine which he accepted and developed. Instead, he repeated it with a great parade of philosophic justification, and connected with it a theory which, by appealing to men's passions and their sense of justice, engaged their sympathies for the doctrine from which he deduced it. This was the theory that the labourer, who creates value, is defrauded of the value which he creates. Ricardo, while holding that the natural price or value of commodities is to be measured by the labour bestowed on their production, had allowed that

¹ 3rd ed., p. 234. This lecture was first published in 1832. The italics are its author's.

their market-price may diverge from this; though under free competition it is constantly being brought back to the natural price. He made the same distinction between the natural and the market-price of labour. As the natural price of commodities is to be measured by the labour required to produce them, so that of labour is to be measured by the labour required to produce it, that is, to produce 'the food, necessities and conveniences required for the support of the labourer and his family'. 'It is when the market-price exceeds the natural price, that the condition of the labourer is flourishing and happy'; but in this case too the action of competition, when the supply of labour exceeds the demand, works to bring the market-price of it to the natural price, or even sometimes below it.¹

It was this part of Ricardo's doctrine which gave Marx occasion to connect with the doctrine that value is created by labour the deduction, that in a capitalist society the labourer is defrauded of the value he creates. It is difficult to distinguish a natural from a market-price without suggesting by the terms of the antithesis that, however by the accident of circumstances the market-price may prevail, the natural is the price which ought to do so. But for labour itself this 'natural' price, as Ricardo had defined it, seemed to Marx a fraudulent price. It is anything but self-evident that workmen ought to be paid no more than what will provide the bare 'food necessities and conveniences' required for the support of themselves and their families, if it is their labour which produces the value of the commodities which their employer sells for much more than

¹ *Political Economy and Taxation*, ch. v.

such wages ; and Marx maintained that the value of labour is really to be measured not by the labour required to produce what will maintain the labourer and his family, but by its own amount ; so that its proper reward is commodities embodying as much labour as the labourer exerts, and this is more than is embodied in what will barely maintain him and his family.

The labour theory of value as thus developed acquired a very different practical influence from what it could exert in the form which Ricardo had given to it. If it be granted that labour is the sole source of value, it would certainly seem that the labourer's reward should be rather of the value which his labour creates, than of the value of what he consumes in creating it. But to allow this is to proclaim a conflict between justice and those 'economic laws' which, according to the teaching of 'orthodox' or 'academic' Political Economy, must regulate wages. This Political Economy, therefore, and the whole economic order whose 'laws' it analysed, Marx scornfully denounced. Some, indeed, as we have seen, had already rejected the labour-theory of value from which Marx drew his condemnation of it. But the examination of that theory was now a matter of practical as well as speculative interest. And, since Marx wrote, 'orthodox' economists have been generally agreed in rejecting it ; nor have the particular incoherences in Marx's attempt to demonstrate its truth escaped notice.¹ Even the leaders of socialistic thought to-day would not all profess it. Yet there is good reason to think that its actual hold on the minds of great masses

¹ As recently by Mr. F. R. Salter, *Karl Marx and Modern Socialism* (Macmillan & Co., 1921), chs. v and vi. Cf. also *infra*, p. 79. n. 1.

of men is very strong, and that it does not a little to embitter their thoughts. Though the proof of its hold is to be found not so much in published statements as in the experience of those who move about among workmen and hear their debates, it may be worth while to give some evidence of the first kind. Mr. Philip Snowden, in his *Socialism and Syndicalism*,¹ while not committing himself to the whole of Marx's doctrine, takes the existence of a rich class that do no labour as showing that 'labour does not receive all that labour creates'; the wealth of this class exhibits in concrete form 'the unpaid value of the worker's product'; landlords and capitalists 'appropriate surplus value', and capitalism is defined as 'capital employed for the purpose of appropriating profit or surplus value'. All these expressions imply the acceptance of what I believe to be false in Marx's theory. Mr. Snowden quotes also a resolution adopted by the Annual Conference of the Labour Party at Liverpool in 1905 which shows how widespread the acceptance of the theory is. The resolution states that the ultimate object of the party shall be 'the obtaining for the workers the full results of their labour by the overthrow of the present competitive system of capitalism, and the institution of a system of public ownership of all the means of Production, Distribution, and Exchange'. It seems fair to interpret this as meaning that 'the full results of 'the workers' labour' are not merely more than what they now get, but all that is to be had. More recently Mr. Robert Smillie is reported² to have said at a

¹ pp. 73, 79, 141.

² *The Times*, 24 Oct. 1919, reporting a conference of the previous day.

conference of delegates of the Miners' Federation, that the farmers, whose class, if any, had profited during the war, 'broadly speaking were not the producers themselves; it was the wage-earning classes who were really the producers'. Presumably the exceptions intended by the words 'broadly speaking' are the farmers who work with their own hands. That only wage earners, i.e. those who labour with their hands, produce is one of the most explosive elements in the theory.¹ Because value belongs for the most part only to things on which labour has been exerted, it is supposed that the labourer who produces some material change produces also the value. Mr. H. M. Hyndman to the end of his life taught that the gross profit of the capitalist comes 'from the labour of the workers embodied in the goods produced', and even that 'salaried servants, superintendents, clerks, &c.', who 'are paid their salaries out of the gross profits', 'add no value to the goods produced'.² And to go farther afield, that the proletariat is exploited by the bourgeoisie, which is part of the essence of Marx's doctrine, is the constant burden of Lenin's book *The State and Revolution*,³ and the avowed creed of the Third International.

To criticize the doctrine then is not to slay the slain, and may be not without practical value. No thinking person would approve the gross inequalities in the present

¹ Though the Labour Party, by admitting to its membership a few years since those who belong to the 'Salaried', acknowledged thereby that other than manual labour assists to create value, it did not thereby repudiate the essentials of Marx's theory. Marx himself in places acknowledged the same.

² Letter to *The Times*, 19 Jan. 1921.

³ Written 1917: published by George Allen & Unwin.

distribution of wealth ; and a rule of justice in the matter is surely to be desired. The overthrow of all accepted standards of price or wage, effected by the war, has made men feel the need of such a rule more keenly. Marx's theory of value professes to supply one. Hence its embittering effect ; for, in those who believe it, to discontent is added the burning sense of a definite injustice ; and the problem of a cure, which to others seems intricate and delicate, to them seems definite and simple. If, as I believe, Marx's theory is definitely false, and if there is neither any means by which to settle how much wealth each man creates, nor any rule of justice to determine what share of the total wealth created each ought to have, it is worth while to try to show this. To persuade of its falsity some at least of those whom Marx's theory has captured is the hope of this book. As his presentation of it is very obscure, the argumentative exposure of it cannot be altogether easy, and it may make it easier to follow the thread of the subsequent chapters if a brief sketch of the argument is first given.

Every one knows that things bought and sold are exchanged by tale, or weight, or measure, so much of one for so much of another. The seller often thinks that he ought to get more of what he takes for the quantity of what he gives ; the buyer often thinks that he ought to part with less of what he gives for the quantity of what he takes. It is the rates at which things exchange which make exchanges profitable or unprofitable, or unequally profitable, to different parties ; as the rates are commonly expressed in money, we say that it is prices which do so. In particular, for a very large part

of the population in modern industrial communities, it is the rate at which labour can be exchanged for commodities, the price of labour, or rate of wages, which makes their labour profitable or unprofitable to them, the material conditions of their life comfortable, tolerable, hard, or wretched.

The fact that for one thing a man can secure others in exchange we call the exchange-value, or simply the value, of that thing; and the value of anything is measured by the quantity of other things—particularly of money—which can be got in exchange for it.

But we also often say that something has been sold below or above its value, for less or more than it is worth. And in so speaking we seem to imply that the value of a thing is not to be measured merely by the amount of money (or other things) which at a given moment can be got for it, but by the amount which ought to be given for it; that its value is not necessarily expressed in its price, but is something to which its price ought to correspond and frequently does not.

Even if this were not so, an inquiry into the conditions which determine the proportions in which different things exchange, and therefore their prices, and the price which labour can command, would be one to which men, whose interests the facts affect so closely, could hardly be indifferent. But if it can be shown that there is a value of things distinguishable from what they do fetch, and determining what they ought to fetch, the inquiry becomes momentous. For it appeals to men's sense of justice as well as to their curiosity in what concerns them. We could then properly speak of the actual exchange-relations of things as conforming to

or diverging from their real relations ; we could call an exchange, or a price, or a wage, correct or incorrect, just or unjust. To ascertain the conditions which confer on things these values, whereto their exchange-relations may or may not in practice conform, would be to ascertain what is just in the economic ordering of society, to find a model or standard by which fair-minded men may agree to redress the present so unequal distribution of this world's goods.

Now this is what Marx claimed to have done. He taught that what both gives to things that have it their real value, and did originally control their exchange-relations, is the labour embodied in them ; and that by reference to this labour we may determine not only the just or proper amounts of any two material things or commodities which should be exchanged against each other, or which are equivalent, but also what quantity of them is the just or proper return for so much labour, namely a quantity that embodies an amount of labour equal to that for which it is paid.

Such teaching has two obvious attractions. It promises a scientific rule in a matter where we are all of us at times offended by an appearance of selfishness or unreason ; and to the less fortunate majority it proclaims that by this rule they are being wronged, and may know their rights. It is, therefore, not surprising that it has become the creed of a large party among them : and a creed with an explosive and revolutionary influence.

This is the creed which it is the object of the following pages to examine. For though the evil of those inequalities for redressing which Marx's disciples see in

his theory of value the scientific rule is gross and glaring, yet if the theory is unsound, the rule vicious and incapable of application, the attempt to act upon it must fail; and an economic revolution guided by such a rule is likely to be ruinous—to destroy, and be unable to reconstruct.

The theory is expounded in the second chapter; and the points to be emphasized in it are these:

1. The value of anything is held to be something *inherent* in it as a result of *labour spent on it*, and is quite distinct from its utility, though the thing must be in some way useful; and distinct also from the thing's actual power to procure other things in exchange.

2. But this labour is not the familiar labour of smith or ploughman, nor measurable by the hours they work. It is 'homogeneous simple labour', 'human labour in the abstract', different quantities of which are contained in, or equivalent to, an hour's ploughing, or an hour's work at the forge. And again, the labour inherent in a given thing is not even that amount of 'homogeneous simple labour' which was contained in the specific labour of the man who worked on it; it is the 'socially necessary' amount, which may be more or less than that: more, if the given thing was made with less actual labour than is commonly required to produce things of its kind; less, if with more.

3. If by all the labour they are capable of exerting men working in co-operation could only produce the bare necessities of life, there would be no advance in wealth or comfort. The facts are otherwise; and, upon the average, it takes less than a full day's labour to produce the necessities which will support a society

whose adult and able-bodied members are exerting a full day's labour. Therefore the quantity of goods embodying a given amount of labour continually increases; the real value, i.e. the value measured in terms of the inherent labour, of a given quantity of goods continually diminishes; and as this proceeds, the amount of goods must increase, which will be the true or just equivalent of a day's labour.

4. But the amount of the goods needed to sustain the labourer is determined physiologically, and does not thus increase. Now in a society where most men have no independent access to the materials and instruments of production, the capitalists who control this access can fix the terms on which they allow it to the rest. There is no more value in all the goods produced than what the labour exerted on them imparts; and if the capitalists gave to the workmen the full equivalent of their labour, there would be nothing for themselves. All that they must give them, however, is the necessities of life, in which less labour is embodied, and which therefore are of less value, than the labour in exchange for which they are given. The difference between the amount of a man's labour, and the amount of labour embodied in the goods he gets for it, Marx calls the *surplus-labour*; and the value of this, *surplus-value*. This is the capitalist's profit; the value in what he retains or gains is the value of the labour of his employés not paid for.

Such then is the theory. A theory is tested by considering what consequences follow from it. If the facts are what can be deduced as consequences from the theory, it is not certainly true; for often, up to a point,

the same facts can be deduced from conflicting theories. But if the facts are not what can be deduced as consequences from the theory, it is certainly false.

Now according to Marx a capitalist makes his profit by paying his workmen less than the real value of their labour. He pays for other things besides labour—for raw materials and machinery; but he pays the full value for these, and makes no profit out of them. The capital spent in buying these Marx calls *constant* capital; that spent in wages, *variable* capital; their sum is the total capital. Since then all profit comes, according to the theory, from the use of variable capital, two consequences follow: (i) A capitalist should diminish his profit, other things being equal, by diminishing his wages bill. (ii) Different capitalists' rates of profit should vary, other things being equal, as their variable bears a larger proportion to their constant capital—their wages bill to their other expenses. Neither of these consequences occurs.

Marx was not ignorant of these discrepancies. But instead of abandoning therefore the theory which led to them, he tried to show how they were consistent with it. He held that in a pre-capitalistic society the values of the products of the labours of independent workers *were* proportionate to the labour-time embodied in them, and that these values have been transformed by the further influence of capitalism into 'prices of production', which are not so proportionate, but yield a roughly uniform rate of profit on the total capitals employed. This contention is examined in Chapter III. It is shown (1) that in a pre-capitalistic age independent workers do not assign equal values to the products of

equal periods of labour ; (2) that there is no ground for saying that in such an age each worker gains by his labour what is just ; (3) that if the inequality of the rewards of equal periods of different labours be explained by reducing equal periods of these to unequal periods of homogeneous simple labour, the argument will be circular. Prices then never did conform to ' values ', and so the alleged process whereby they have been diverted from this conformity cannot have occurred. But assuming that they did, we find that Marx's account of the alleged process breaks down. He argues that first of all, in each line of production, in place of different rates of profit to different capitalists in that line, depending directly on the ratios which the surplus-values appropriated by them bear to their respective total capitals, a single average rate of profit comes to be substituted. This is the explanation of discrepancy (i) above. And later, for these various average rates of profit in each line of production a uniform rate of profit is established for all lines, giving ' prices of production '. But the account of the first process is really an explanation of the establishment of a single market *price* for any one kind of commodity. Marx says that it is effected by competition among producers, but wrongly maintains that what competition establishes is an average of the different individual *values* of the several parts of the total stock. The account of the second process turns on the conception of a single *market-value* for each kind of commodity, distinct both from the single *market-price* and from the ultimate *price of production* ; but under the name of market-value Marx at one time conceals market-price, and at another price of production,

and nowhere shows that there really is a third thing distinguishable from both. *Value*, therefore, as his theory defines it, measurable in labour-time, never really figures in the account at all. And throughout the account Marx betrays a complete misapprehension of the nature and limits of averaging. He speaks of an average value for all commodities, and no such thing can exist. He supposes that from a given ratio between the average quantities of two features in a set of terms a constant ratio between the quantities of those features in the several terms of the set is deducible. It is not. He uses, again, the notion of an average when he substitutes, as constituting the value of a given article, for the labour actually spent on that article, the socially necessary labour; and does not see that this destroys whatever plausibility belongs to the doctrine that a man should receive for his work in proportion to his labour.

Since the labour held to confer value is not any specific labour of smith or ploughman, but a 'homogeneous simple labour', to various amounts of which these are held to be reducible, the fourth Chapter is devoted to examining this conception. It is shown that when he supports the doctrine that, in a society subsisting by division of labour, value is constituted by labour, by arguing from Robinson Crusoe exercising different kinds of labour on his desert island, Marx relies on a false analogy; and that of the two methods by which he says that we could determine to how much homogeneous simple labour a given length of any specific labour is equal, the first would merely beg the question, and the second, based on the cost of training a man to any specific labour, would show that exchange-relations do

not conform to the values thus ascertained. And it is then pointed out that the whole notion of a homogeneous simple labour to which the different specific labours are reducible is logically erroneous, confusing as it does a unit of measure with a generic identity.

The fifth Chapter argues that it is a fundamental mistake to suppose that there is any common element inherent in all things which have exchange-value and determining their exchange-relations. The question involved is not merely economic ; it concerns all preference, moral preference included. Economic exchanges spring from mutual wants for different things, not from want of some one element in things, of which those which contain more are the more valuable. Value is conferred on anything primarily by its being wanted : equal value, when each thing taken in exchange is wanted just more by the taker than is what he gives for it. Labour confers value only so far as it produces what both satisfies men's wants, and cannot be had without it. When Marx thought that, if we abstract from their specific uses, there is nothing common left in all things which have value, except being products of labour, he forgot that it is equally common to them all, to satisfy some want. But though wants give things value, what makes their values appear commensurable is the relation of these wants to the want of a single thing, money. This is no inherent common element, that could furnish a unit of measure for all values. On the contrary, the values of things are really different for different people, as their wants differ. This fact is only concealed, not removed, by the fixing of prices, as can readily be shown by an example. And this

variability of men's wants makes the attempt to measure the values of things absolutely, or for all men, in terms of a common unit chimerical. The impossibility does not spring from the fluctuating value of the unit of measurement itself, the franc or mark or pound sterling; for it would still remain, if we avoided this by substituting index-numbers. It springs from the fact that a thing only has value as it is wanted, and men do not all want the same things in the same proportions.

The connexion of value with wants is further pursued in the sixth Chapter. It is argued that what leads to the illusion of an absolute value in things is their having fixed prices; because the price is the same for all, it is supposed that the value is. But in reality the value of the same thing to different people is so different, that it might rather seem that they ought to give different prices for it. There are, however, both moral reasons making it seem right that prices should be fixed, and economic reasons for fixing them; and there are definite causes in the conduct of purchase and sale that lead to their fixing. And though a greater equality of sacrifice and satisfaction ensue, if different transactions in the same commodity were carried through at different prices, provided those who could better afford to take a lower price were brought into contact with those who could less afford to give a higher, and those who more needed a higher price with those who could better afford to give it, yet it would be impossible to secure this harmonious pairing. We must then acquiesce in single prices which involve for those who give or get them very unequal sacrifices and satisfactions; and there

is no absolute or objective exchange-value expressed by the price. Nor can prices that correspond with the expense of production claim to express any real or absolute value. Value is not absolute, because wants vary in their positive and comparative intensity from person to person, and it is grounded in the fact of men's wants, combined with some degree of scarcity of that which will satisfy them. It is true that men feel a sacrifice in parting with what they want, and therefore there can be no exchange-value without sacrifices as well as wants. But the primary factors are wants and scarcity ; and even if the value of a thing could as truly be said to spring from the sacrifice necessary to produce it as from the want of it, that would not in the least show that it springs from labour. For to labour is but one kind of sacrifice ; and though, so far as labour has value, it may impart it to that which it produces, it derives this value from men's want of what it can produce.

The last Chapter discusses whether labour, which has been shown not to create value, ought to regulate men's shares of material goods, and whether there can be any single and just rule of distribution.

II

STATEMENT OF MARX'S THEORY OF VALUE

MARX's principal work, *Das Kapital*, or *Capital*, is in three volumes, of which only the first was published in his lifetime. An English translation of this volume did not appear till 1886, three years after the author's death; and of the third volume, not until 1894. The work is devoted to an analysis of the capitalistic mode of production which he found prevailing especially in Western Europe and the United States of America. In this, the materials and instruments of production are concentrated in the hands of comparatively few, while the actual labour of handling the materials and using the instruments is discharged by persons working for a wage. Familiar as we are with this system, it is not that which has always prevailed, nor which everywhere prevails now. The village shoemaker or blacksmith, the small farmer who cultivates his own land with the aid of his children, the group of fishermen who own a boat and tackle, are not in Marx's sense capitalists, though they own instruments and materials of production; there is no capitalism in the village community of rural India¹ or in Arabia. The capitalist system is in the main the result of big machinery. The provision of big machinery requires more wealth than the small

¹ Except for the activities of the bunnia, or money-lender.

workman possesses ; the use of it requires a large number of workmen in a single factory ; it encourages and is encouraged by subdivision of labour ; and both on this account and because of the numbers concentrated together, it makes necessary careful organization and direction of the workers. Thus capital and control come to be in the hands of the few : at least the management of capital, if not (in joint-stock companies) the ownership of it. The mass of men come to be wage-earners, bargaining with an employer to work so many hours a day for so many shillings ; not needing to understand much of the process of production beyond the phases of their own immediate job ; having no obvious financial interest in the business except their wage ; and, because the small workman cannot produce so cheaply as the factory, having no alternative, if they are to make a living, to working for a wage. -

The factory system arose first in Great Britain, where the early mechanical inventions which rendered it possible were mostly made ; and Marx's study of it is based largely on English experience and English blue-books. The terrible abuses connected with it in its early stages, before the introduction of any Factory Acts, are well known. Marx regards the greed and callousness often displayed as characteristic not so much of human nature, or of the British character, as of the capitalistic system.¹ He attempts to show how this system rests upon the appropriation by the capitalist of *surplus-value*, an unearned profit which his position tempts him to increase by every means he

¹ For some evidence against this verdict, cf. Professor Alfred Marshall's *Industry and Trade*, p. 73 (Macmillan & Co., 1919).

can. But though the theory of surplus-value, and of value generally, is expounded with special reference to the system of capitalistic production, its truth, if it be true, is independent of that system. The exchange of products with some regard to their several so-called values, the use of money to facilitate that exchange, the expression of the so-called value of other things in terms of money, are facts belonging to all but the very simplest economic stages of society ; and if the source of the value of exchangeable goods is the labour-power which has gone to their production, that fact has nothing to do with capitalism. Nor are the puzzles and problems out of which Marx's inquiry springs, and the injustices which he charges against the capitalist system, by any means all of them confined to it. How is it, if an exchange is fair, that either side can make a profit out of it ? ¹ If there is a profit, must not one party have got more and the other less than he should out of the transaction ? And will not a man who gets richer in the course of business have swindled somebody ? What again is a fair price for anything, and is it right that it should be such as will enable the seller to pay interest on his money to a man who lends for purposes of production or commerce ? These are questions which might easily be asked in a society where cultivators and artisans worked for themselves and not for an employer, owning the means of production with which they ' mixed their labour ', and buying and selling among each other without any elaborate development of the activities of middlemen. Most of them might be asked where the

¹ ' Exchange creates no value.' Mr. H. M. Hyndman, letter to *The Times*, 19 Jan. 1921.

means of production, distribution, and exchange were in the hands of the community.

The theory of value and of surplus-value is intended by Marx to explain at once the exchange-relations holding between different kinds of commodities, the true value and hence the just price of a commodity, the source of the increase in the value of the stock of commodities in a country, and the method by which the capitalist class appropriates this increase, in the forms of rent, interest, and profit. According to the theory, all value in a thing is derived from the labour embodied in it ; the exchange-relations of things are an expression of their relative values in labour ; increase of value in the totality of things is possible, because a labourer can exert more labour-power in a day than has gone to producing the things which he must consume to sustain him in the exertion ; but the value which this surplus-labour embodies in commodities is annexed by the capitalist, who gives to the labourer in the form of wages what embodies less labour than the labourer puts into his materials while he works, and what therefore has less value than the labourer produces.

This is the theory which we have to examine. Marx indeed, so far as I am aware, gives no general philosophical account of the notion of value. He does distinguish use-value and exchange-value, as many other economists have done. That has use-value which is serviceable to some result, whether anything can be got for it in exchange or not. But if the result be said to have value, not as instrumental to a further result, but in itself, the word is used in a different sense from either of those which Marx distinguishes. Air seldom has exchange-

value ; but it has high use-value, being necessary to life. Life would not be said to have use-value, except in relation to something further ; as the life of a horse would have use-value to a traveller in a country where horses could be had for the catching. Nevertheless, we should say that life has value ; and it is this sense of the word which is philosophically of most interest. It might be better not to use the same word in all these senses. ' Value ' too inevitably suggests comparison to be a good word to denote the element whose degrees are compared. It was said of old that the gods may be honoured, but not praised, because we praise things by reference to a standard, and the gods are beyond compare¹ ; and so we might say that what justifies its existence merely by being what it is, should be called good rather than valuable. The word ' worth ' is sometimes preferred in this sense to ' value ', although it also is a term of comparison (for a thing is said to be worth so much), because it does not so strongly suggest a mere relation to other things. But ' good ' is the word which best suggests this self-justifying character in things which we wish to indicate. In a philosophical treatment of the notion of value it would be necessary to consider whether there is anything good, and if so what, intrinsically, and independently of the store which men may set by it. But Marx's theory does imply that exchange-value is something as intrinsic to a commodity possessing it as such goodness would be. It is as if one were to look upon some stupendous work of human labour, like the Great Pyramid, or the Great Wall of China, and say : There is here so much human labour embodied and held

¹ Aristotle, *Nicomachean Ethics*, I. xii. 2-4, 1101^b 12-27.

fast, that, whether it is of any use to any man or not,¹ whether or not men are aware of it and take pleasure in the contemplation of it, this thing has value. Yet he continues to think of value (for he identifies exchange-value with value simply) as essentially a relative thing. Exchange-value is so. But—and this is what he fails to see—value, embodied in a single thing, would be primarily not relative, though, as having magnitude or degree, it would be the ground of relations.

To return, however, to his discussion of the distinction between exchange-value and use-value: he points out that the use-value of anything springs from its quality, or specific nature; whereas with exchange-value it is different. A thing cannot have exchange-value unless it has some use-value; but its exchange-value does not depend on the particular qualities which give use-value (i. e., really, usefulness) either to it, or to that for which it is exchanged. For its exchange-value is expressed in a relation; so much wheat is worth so much gold, or silk, or cotton. Now it is not the peculiar useful qualities of wheat which make it worth so much cotton, since silk, which does not possess those qualities, also has exchange-value, and so much silk is equally worth so much cotton. By parity of reasoning, it is not the peculiar useful qualities of cotton, nor of silk. Yet since we can thus equate so much of one thing to so much

¹ Marx, as I have said, held that nothing has exchange-value which has not also some use-value; but since he also held that the exchange-value is in no way a function of the use-value, and since the labour which confers exchange-value has equally been expended on a thing whether or not it has use-value, his theory really implies what is here said. That he would have demurred only shows the speculative weakness of his position.

of another, there must be something in them the same in kind, and equal in amount, to be distinguished from their qualitative differences. 'As use-values, commodities are, above all, of different qualities; but as exchange-values, they are merely different quantities; and consequently do not contain an atom of use-value.'¹ Marx calls that which is qualitatively the same in exchangeable things, and by its quantitative variations makes it possible to equate them, Value simply; and he regards this value in a thing as something inherent or intrinsic; something of which one could say that there really is so much in a given thing, whether we exchange it for what contains the same quantity thereof or not. But what gives things this Value? 'If we leave out of account the use-value of commodities,' he says, 'they have only one common property left, that of being products of labour.'¹ It is labour then that gives them value. But we must carry our abstraction further. For labour itself is of many different kinds: a weaver's labour is not the same as a spinner's or a carpenter's, and a man cannot exert weaver's labour in making a bench. These qualitative differences in labour we must ignore; they correspond to the qualitative differences in the products of labour, whence their different uses, or use-values, spring; and with use-value we are not concerned. We must consider only what is common to all these kinds of labour, viz. the bare fact of being human labour. It is labour then merely as human labour, not as labour of this or that special sort, which gives to the things on which it is spent their value; and it is the quantity of this labour—

¹ *Capital*, I, p. 4.

quantity being measured by duration—which determines the magnitude of their value. 'As values, commodities are only definite masses of congealed labour-time.'¹

As the above argument is fundamental to Marx's theory, and it is important to make it as plausible as it can be made, it may be worth while to vary the statement of it. Commodities have a value in use, and a value in exchange. They have not a value in exchange unless they have also a value in use. The use-value of a particular commodity *X* springs from its special qualities, and is different from that of another commodity *Y*. But its exchange-value does not spring from its special qualities, nor need the exchange-value of *X* differ at all from that of *Y*. Since nearly all useful commodities have exchange-value, and any ~~that~~ have can be compared in this respect quantitatively, and the exchange-value of all the rest can be expressed in terms of any one, their exchange-values must depend on something qualitatively the same in all of them, not, like their use-values, on what is qualitatively different. But we can find nothing thus qualitatively the same in all, except being products of human labour. Being products of human labour therefore gives them this common element of value, and they exchange because they contain this common element, and in proportion to the amounts of it. Human labour, indeed, has also made them useful; but it has done that by its special nature. It cannot, therefore, be the special nature of

¹ *Capital*, I, p. 6. This is of course not really consistent with the admission that nothing has value in exchange unless it is in some way useful.

the labour which has given them exchange-value, for use-value and exchange-value are different. Hence it must be merely the common character of being human labour; and when we abstract from the qualitative differences of labour, we are left only with its quantitative variations. All kinds of labour are thus 'reduced to one and the same sort of labour, human labour in the abstract',¹ and the quantity of this that goes to the making of a commodity determines the amount of its value. It is true that human labour is never thus abstract; a man must work as carpenter, spinner, or what not. In a cotton-mill, 'if the special productive labour of the workman were not spinning, he could not convert the cotton into yarn, and therefore could not transfer the values of the cotton and spindle to the yarn'. But this, in Marx's opinion, does not prove that it is the special nature of the labour which confers value. 'Suppose the same workman were to change his occupation to that of a joiner, he would still by a day's labour add value to that of the material he works upon. Consequently we see, that the addition of new value takes place not by virtue of his labour being spinning in particular, or joinering in particular, but because it is labour in the abstract, and a portion of the total labour of society: and we next see, that the value added is that of a given definite amount not because his labour has a special utility but because it is exerted for a definite time.'²

¹ *Ibid.*, I, p. 5.

² *Ibid.*, I, p. 182. Note that in this passage Marx tacitly assumes (he says that we see) what is really the thing to be proved, viz. that there are equal values added to commodities of different kinds by labours of different kinds equal in duration.

Value in exchangeable commodities is here held, as was said above, to be something absolute or intrinsic. We may of course speak also of relative values, because these values in exchangeable commodities have relations to each other ; we always do express the value of one thing in terms of another, and commonly of one other, money. The relative values of two things may alter, if a change occurs in the amount of labour required for the production of one without a proportionate change in that required for the production of the other. But without any relative change there may be an absolute change. If a quarter of wheat exchanged for eight yards of a certain linen, and the labour needing to be embodied in the production of each were increased or diminished by one-fourth, their absolute values would be increased or diminished, though their relative values remained the same ; and the change would appear on comparison with a third commodity, the labour needed for producing which had remained the same. And if the productivity of all labour increased or diminished at once in the same proportion, though there would be no change in the relative values, or exchange-relations, of commodities, yet the same total stock of commodities would have less or more value than before ; or, if the same amount of labour were still exerted in producing a greater or lesser stock of commodities, the old and the new stocks would have the same value.¹

So far the theory, whether true or not, seems fairly simple² : the amount of labour spent in producing a

¹ *Ibid.*, I, p. 23.

² It will be shown later that the notion of human labour in the abstract is fundamentally unsound, and therefore nothing can acquire value from such labour : see *infra*, ch. iv.

thing determines its value, and things exchange in proportion to their values. The theory is developed as an account of the facts, an explanation not merely of what should, but of what does determine exchange-relations. 'It becomes plain', says Marx, 'that it is not the exchange of commodities which regulates the magnitude of their value; but on the contrary, it is the magnitude of their value which controls their exchange-proportions.'¹ And it is easy to find facts which seem to support this statement. If I select for a monument a harder stone which takes longer to work, though both stones were equally plentiful and accessible, I must pay more for the monument. Wrought iron costs more than cast iron because, as we say, there is more labour in it. Nevertheless there are other facts equally familiar which do not seem at first sight to fit in with the theory. 'Some people might think that if the value of a commodity is determined by the quantity of labour spent on it, the more idle and unskilful the labourer, the more valuable would his commodity be, because more time would be required in its production.'² This obviously is not what occurs. Marx explains that the labour which forms the substance of value in a particular commodity is not the actual labour spent on it, labour perhaps unusually efficient or inefficient, and so producing it in less or more time than that in which others like it are produced; it is the socially necessary labour, uniform in quality and intensity, or homogeneous. 'The labour-time socially necessary is that required to produce an article under the normal conditions of production, and with the average degree of skill and

¹ *Ibid.*, I, p. 33.

² *Ibid.*, I, p. 5.

intensity prevalent at the time.' ¹ We must, as it were, pool the labours spent on the several articles of one kind, and allot to each an equal share. Thus 'the introduction of power-looms into England probably reduced by one-half the labour required to weave a given quantity of yarn into cloth'.¹ If the hand-loom weavers still spent as many hours of labour as before, that did not prevent the value of their cloth from falling, for they spent twice the time now become socially necessary, and that is the time which is the substance of value. 'Each individual commodity, in this connexion, is to be considered as an average sample of its class.'¹

The conception of homogeneous human labour employed in the above explanation is used by Marx to remove another difficulty. We saw that labour gives value to commodities not in virtue of the special skill in it, but merely as human labour. Now two men's labours may differ not as the wheelwright's from the carpenter's, where the skills, though different, are perhaps equal, but as the carpenter's from the general labourer's, and the skilled generally from the unskilled.² And skilled labour adds more value to an article on which it is spent than does unskilled labour in an equal time, as is shown by the fact that the product of skilled labour exchanges for more of the same commodity, say wheat or yarn, than does the product of an equal amount of unskilled labour. It might seem, therefore, that it is

¹ *Ibid.*, p. 6. Marx's argument does not work. If the value is to be derived from the average labour-time, the slower processes of the hand-loom weavers should bring up the value, as they do the average; yet he does not suppose them to do so.

² Perhaps no labour is wholly unskilled. Marx's problem of course equally arises for different degrees of skill.

not the barely embodying so much human labour that gives so much value to a commodity. Marx's answer is that a given quantity of skilled labour is reducible to a greater quantity of ordinary labour. 'Skilled labour counts only as ordinary labour intensified, or rather as multiplied simple labour, a given quantity of skilled labour being equal to a greater quantity of simple labour. Experience shows that this reduction is being constantly made. A commodity may be the product of the most skilled labour, but its value, by equating it to the product of simple unskilled labour, represents a definite quantity of the latter labour alone.'¹ And it is 'the expenditure of simple labour power, i.e. of the labour power which, on an average, apart from any special development, exists in the organism of every ordinary individual',¹ which determines value.

The substance of value, then, is homogeneous labour-time; the respective socially necessary quantities of this embodied in commodities determine the relations of their exchange-values. 'As values, commodities are mere congelations of human labour,'² and only as congealed in a commodity does their labour become value. All this, it should be remembered, Marx develops before introducing the consideration of money or wages. In describing the reduction of skilled to terms of homogeneous simple labour he says expressly that he is not speaking of the labourer's wages: 'wages is a category that has no existence at the present stage of our

¹ *Ibid.*, I, p. 11. For an examination of this answer see *infra*, ch. iv.

² *Ibid.*, I, p. 18.

investigation¹; and the equation of one commodity to another by means of this homogeneous element embodied in them is described as prior in thought to the conception of money, which is no more than a single commodity in quantities of which the quantities of value intrinsic to the rest may be expressed. Money itself gets its value from the labour-power embodied in it. If a week's wage is £1, or £3, that is because the average quantity of labour spent in the production of so much gold is the same as what is embodied in the commodities consumed in a week by the labourer and his family—not, be it noted, the same as what the labourer exerts in a week.²

And in this difference lies the secret of surplus-labour, and of profit. The wage-earner has not himself access to materials in which to embody his labour; he, therefore, cannot produce either the things necessary for his own use, or other things having value, for which to obtain them by exchange. The capitalist offers him the means of subsistence, on condition of his working for him say six days of eight hours in the week.³ But in

¹ *Ibid.*, I, p. 12. This point is important. It is essential for Marx's argument to show that the reduction can be made without considering the prices of the commodities; but he cannot show it.

² Marx is right in applying the same theory to gold as to other products. The same causes which determine fluctuations in the value of other commodities relatively to gold will, if affecting the production of gold, make its value fluctuate relatively to other commodities. And, so far as it is true that labour-costs determine values, it is true for gold. Labour-costs are an element in determining value, as we shall see (*infra*, pp. 133-5); but only so far as the labour itself has to be paid for, and so has a value measured in terms of something else than labour. The fact, therefore, does not prove that it is the labour in a thing which gives it value, which is what Marx is contending.

³ Marx generally assumes a ten-hour day; in this and other

the means of subsistence is embodied the labour of six days of, it may be, only four or five hours. In justice he should be only required to give four or five hours of work a day in return for his wages. He is required to give eight. Half or three-eighths of his labour is therefore not paid for. He creates value, but partly for the benefit of the capitalist, not of himself. This is surplus-value, i. e. value which the capitalist receives in goods produced, over and above what he gives an equivalent for in other goods. Out of it come rent, interest, and profits. Its division into these parts is a minor question; all are derived from labour for which the labourer is not paid, and come by his exploitation. Here lies the fundamental injustice of the capitalist system. An exchange is only just when the things exchanged embody equal amounts of human labour.¹ When for what embodies so many hours of human labour that is given which embodies fewer hours of it, the exchange is unjust. There are doubtless many other unjust exchanges, but the constant all-pervasive form of it in a capitalist society is in wage-payment. The employer takes from the wage-earner, in the materials on which the wage-earner works, more labour, and so more value, than he gives him in his wage or the commodities to which it is equivalent. Thus he amasses surplus-value; he becomes richer unjustly by mere exchange. There is only one

particulars, where the argument is not affected, I have taken illustrative figures nearer to the facts of to-day.

¹ It cannot be insisted on too often, however, that this labour is held to be the socially necessary, homogeneous human labour; and that the principles on which labour is discounted as not socially necessary, or special and skilled labour reduced to terms of homogeneous labour, are in direct conflict with the main theory.

way to become richer justly in business, and that is yourself to put into the commodities which you sell more labour than is contained in those which you consume. Then, though you exchange them for others containing only equal labour and value, you will still possess a stock embodying more labour than before; and you will have exploited no one.

We have seen that, according to Marx, the value of commodities depends on the amount of socially necessary labour embodied in them, not on the amount of service they can render; and that, if we increase the productivity of labour, i. e. the extent of transformation which it can effect in materials in a given time, we do not increase the value of the stock produced, though we produce a stock of increased usefulness. But for the subsistence of the labourer it is the use-values of things that matter; and hence, if the productivity of labour increases, it will be possible for the labourers to support themselves with goods of less value than before (i. e. of less exchange-value, not of less value in use). The capitalist, therefore, can pay a wage containing a smaller proportion of the value which the workman creates, even if the amount of labour exerted in a given time remains the same. No doubt the workman might insist on retaining his old share of the value he creates, and so improve his standard of living, by getting commodities of more use-value. But Marx believed in the so-called 'iron law of wages', in accordance with which there is a constant tendency under capitalism for wages to sink to the bare subsistence-level. The general effect, therefore, of a reduction in the labour-time required to produce the necessities of the labourer's life would, he thought,

be to reduce the value of what is paid him in wages ; and hence, of the value which he creates by his labour, a smaller part would be paid for, and a larger part annexed as surplus by his employer, supposing him to continue to work for his employer as hard as before. If, for example, the average time required to produce the daily necessities of a labourer's existence is reduced from five hours to four, their value, and so their price will fall by one-fifth ; and a wage of 10s. a day will be reduced to 8s. But the labourer will still work eight hours a day ; hence the surplus of unremunerated labour will be four hours instead of three ; the labour paid for will be four hours instead of five ; and the surplus-value appropriated will be 100 per cent. of the value paid for, instead of 60 per cent. It is in the capitalist's interest to effect such a change.

Further, Marx draws a distinction, very important for his argument, between the functions of two parts of the employer's capital. The capitalist of course gets his profit by selling commodities ; but he must first produce them, and for that purpose must provide himself with instruments and materials of production, as well as with labour. For the labour he pays in wages, and at less than its full value ; but for his instruments and materials he pays at their full value. It is true that the labour creating the value embodied in them has not been paid for at its full value by the other capitalists of whom he buys them ; but the full value is there, and it is by charging him at the full value that those other capitalists realize the surplus-value which they have appropriated. In his factory this value is merely transferred from the machinery and raw materials

to the more finished product. Suppose, e. g., that a cotton-mill will transform 100 lb. of raw cotton into yarn *per diem*, and that the life of the machinery is 3,000 working days; as there will be a certain waste in the spinning, the mill will turn out daily say 85 lb. of yarn. Then, if the value of the machinery is £6,000, and that of 100 lb. of raw cotton £10, there will so far be a value, in every 85 lb. of yarn, of £2 for use of machinery and £10 for material, = £12. But a further value will have been embodied in the yarn according to the quantity of labour exerted in the mill in a day's running: let us say £6; so that the total value of the 85 lb. of yarn will be £18. Now if the rate of surplus-labour in the cotton-mill be 100 per cent., e. g. if the value of the workman's wages represents only four hours' labour-time, while the working hours are eight, then the capitalist in whose product is embodied the further value of £6 is paying in wages only a value of £3. His yarn will cost him £15, but will have a value of £18; and his profit will be at the rate of 3 to 15, or 20 per cent. on his capital expenditure. But this profit is gained entirely through his wage-bill; his instruments and materials of production he pays for at their full value, though those of whom he buys them did not. To him, however, it is indifferent whether the workmen who laboured on them got the full value of their labour, or part went to the capitalists of whom he buys them. He pays for them in full and could not sell them for more.¹ But for the labour which he employs he does not pay in full.

¹ Marx is not considering the transactions of a mere middleman, whose profits, i. e. whatever goes beyond the value of his labour in the increment of the price: would be unjust. Nor is he considering market fluctuations. Apart from that, if copper, say, is at £70 a ton, and I buy more than I want, I can only sell it again at £70.

Here, then, is the whole source of his profit; it is merely through this—through appropriating the surplus-value created by his own workmen—that he can sell his products for more than they cost him.

Marx distinguishes these two parts of a capital, that spent in purchasing instruments and materials of production, and that spent on wages, by the names *constant* and *variable capital*; because, so far as capital is spent in purchasing the first, no change in the value of what the capitalist holds arises; but so far as it is spent on wages, or the purchase of labour-power, there is a change created in the total value of what he holds, though one varying in rate according as more or less of this labour-power is left unpaid for. The capitalist does not realize the importance of this distinction; wages figure in his accounts as an item of cost alongside of materials and machinery. He is at least as willing to reduce his expenditure on the first as on the second, even without reducing *rates* of wages. For he reckons his rate of profit by the proportion which the surplus-value appropriated bears to his total capital, constant and variable together.¹ But all the surplus value, and therefore all the profit, comes really from the variable capital. And since, in business, this may bear divers relations

¹ Note that the capitalist really reckons his rate of profit in terms of money, not of any 'value' in commodities distinguished from money. In the above statement, therefore, Marx assumes that the value of the capitalist's product is what he gets for it in money. But his whole contention is that the value is something else, the embodied labour; and that a relation between money-prices is only just when it conforms to the relation between the *labour-values* of commodities; as he here holds it does in the ultimate selling prices, though a part of what ought to go to the labourer goes to the capitalist. But until he has proved this (and he never proves it) he has no right to speak as if what is true for money figures were true for figures expressing 'value'.

to the constant capital, while again the proportion of labour unpaid for may bear divers relations to that paid for, the *rate of profit* and the *rate of surplus value* may vary differently. They would only not do so if the whole capital were constant, or if the whole were variable. That the whole should be constant means that a man owning the instruments and materials of production should work upon them himself, without employing any one else at wages; and then both rates would be zero. To illustrate the second alternative, we might suppose a man, whose business it is to carry messages, employing a capital of £10 in hiring an assistant for a month, and realizing £15 more than he would have earned alone; and if we suppose that the £15 which he gets, and not the £10 which he gives, is the true labour-value of the assistant's work, then the two rates would be the same, 50 per cent. for the month. But this is a highly artificial supposition. Normally and actually capital is partly constant and partly variable, and the proportion varies; with the same rate of surplus-value, the rate of profit increases as the variable forms a larger proportion of the total capital; with the same proportion of variable to constant (or to total) capital, it increases as the rate of surplus-value increases. Thus let C =total capital, c =constant capital, v =variable capital, s =surplus value, s' =rate of surplus-value, p' =rate of profit. Then we might have the following cases, by way of illustration:—

$C\ 100 = c\ 80, v\ 20 : s\ 20 : s'\ 100\ \text{per cent. } p'\ 20\ \text{per cent.}$

$C\ 100 = c\ 50, v\ 50 : s\ 50 : s'\ 100\ \text{per cent. } p'\ 50\ \text{per cent.}$

$C\ 100 = c\ 80, v\ 20 : s\ 40 : s'\ 200\ \text{per cent. } p'\ 40\ \text{per cent.}$

But the capitalist looks only to p' , the relation of s to C .

Marx calls the relation of c to v , of constant to variable capital, the *organic composition* of that capital.

Now, if all this is true, two important consequences arise. First, a capitalist ought not to be indifferent whether he economizes in his wages-bill or in his other expenditure. For, by economy in his wages-bill, there will be such a change in the organic composition of his capital as must diminish the source of his surplus-value, and, unless the rate of surplus-value be correspondingly increased, diminish also the amount of it. Such a change should lower his rate of profit, which is what he cares about. Yet we find capitalists quite ready thus to economize on wages without cutting rates, and without necessarily diminishing their other expenditure. The explanation offered is, that a single capitalist thus acting gains, because, as we have seen, all the commodities of a given kind on the market are to be considered as one stock, and the value of any part of that stock depends on the average or socially necessary labour expended in producing it. So long as this remains the same, the individual capitalist by his economy in wages will not diminish the value in his product, but will with a less capital than before appropriate the same fraction of the aggregate value embodied, by labour such as he employs, in that stock of commodities. The value in his commodities will be the same, and also the surplus-value in them, the value of his total capital will be less; and his rate of profit, being calculated by the quantity of surplus-value he annexes upon the total value of his capital, will have risen.¹ But if the other capitalists

¹ If y = the amount of economy effected in his wages-bill, his rate of profit will have risen from $\frac{s}{C}$ to $\frac{s}{C-y}$.

imitate his economy, as the tendency will be for them to do, the aggregate value embodied in the whole stock of that commodity will fall, his fraction will fall, the fall will be expressed in a diminution of price, and his rate of profit will fall, even though the aggregate profit be maintained by increasing the output.

The other consequence is this, that, as between two lines of production, that should always yield the higher rate of profit in which the variable bears the higher proportion to the constant capital, or, in Marx's phrase, in which the organic composition of capital is lower. Thus a capitalist should prefer a business in which his chief expenditure is on wages to one in which it is on plant and materials. But this is notoriously not so in fact. Here again Marx invokes, to solve the difficulty, the influence of averaging, but of the averaging of profit now not over the different parts of the stock of commodities of any one kind, but over different kinds. Through competition, the different rates of profit which arise in the production of particular sorts of commodity are converted into an average rate of profit. The explanation of this change is given in the third volume of *Capital*, which did not appear till after Marx's death. In the interval it had been pointed out that the whole doctrine that exchange-values depend on the labour embodied in commodities, and profit on the surplus-labour not paid for in wages, was endangered by the absence of any correspondence between the rate of profit in a business and the ratio in it of the wage-bill to its other expenditure; and Engels, in his Preface to the second volume, had referred to the criticism, and challenged the public to discover Marx's solution.

Considering that the argument which Marx offers as a solution wholly fails to remove the difficulty, it is not surprising that Engels was dissatisfied with the response to his challenge.

The aim of this chapter has been to give such an exposition of Marx's theory of value as should bring out what in it is plausible or attractive; objections have been only indicated in passing. The development of these objections in the chapters which follow will, as I believe, refute the theory.

III

THE INCONSISTENCY BETWEEN THE CONSEQUENCES OF MARX'S THEORY AND FACT

IN the last chapter we endeavoured to expound Marx's doctrine, that what determines the exchange-values of commodities is the labour spent in producing them, and that the capitalist derives his profit from that portion of the value created by his workmen for which he pays them no equivalent. We have now to ask how far this doctrine is true. We saw that Marx himself admitted that certain facts seem at first sight to be in conflict with it. Do commodities in fact exchange in proportion to the labour spent in their production? And do capitalists' profits in fact correspond to the differences between the full values of their workmen's labour and the amounts they pay in wages? We shall find the answer to be 'no' to both these questions. It is true that Marx offers an explanation of the fact that any particular capitalist gets a rate of profit not determined by the amount of surplus or unpaid labour which he induces his own workmen to exert. But this amounts to admitting that now at least prices do not conform to his law of value. It might be argued, and he alleges, that they originally did; but this contention he fails to make good. It might also be argued that though actually prices are not so determined, in justice they should be; that the real value of things is proportionate to the labour in them; that nothing ought to entitle

any one to a share of material goods except labour, and that the shares of those who labour should be proportionate to the amounts of their labours. I shall try to show that it is difficult to find any precise and satisfactory sense in which these propositions could be true¹; and that there are certain indefensible conceptions at the very basis of the argument by which Marx endeavours to prove that the source and substance of value in a commodity is labour-time.²

We may begin by examining Marx's explanation of the fact that the rates of profit of capitalists producing different kinds of commodities do not vary with the proportions of their wage-bills to the rest of their costs, but approximate to uniformity. This was the second of the difficulties indicated at the close of the last chapter. The explanation is attempted in the ninth and tenth chapters of his third volume. 'We have demonstrated', he says, in the previous chapter, 'that different lines of industry may have different rates of profit, corresponding to differences in the organic composition of capitals, and (within the limits indicated) also corresponding to different times of turnover. . . . On the other hand there is no doubt that, apart from unessential, accidental, and mutually compensating disturbances, a difference in the average rate of profit of different lines of industry does not exist in reality, and could not exist without abolishing the entire system of capitalist production. It would seem then as though the theory of value were irreconcilable at this point with the actual process, irreconcilable with the real phenomena of production, so that we should have

¹ See *infra*, ch. iv.

² See *infra*, *ib.* pp. 96-100.

to give up the attempt to understand these phenomena.¹ The discrepancy between fact and theory is then admittedly serious. We may waive the complication that would be introduced by considering different rates of turnover, since it is plain that their consideration cannot affect the issue.² But it must be noted that Marx has not really demonstrated that different lines of industry may have different rates of profit corresponding to differences in the organic composition of capitals. All that he has shown is that, *if* the exchange-relations of commodities depend on the labour-times devoted to their production, and *if* capitalists make their profit by not paying to their workmen commodities embodying amounts of labour equal to what those workmen exert, then this will happen. That it does not happen is awkward for these suppositions; but as they have not been demonstrated and are not self-evident, there is no reason why we should on that account give up the attempt to understand the phenomena. We may instead give up the suppositions.

Marx uses figures to illustrate what the position should be, but is not. Suppose two capitalists, *A* and *B*, with the same rate of turnover, and each with a total capital of £100; suppose their rate of surplus-value to be 100 per cent., i. e. that their workmen are paid only half the real value of their labour; then suppose *A* to use

¹ *Capital*, III, p. 181.

² It is plain that if a man turns over his capital twice every year his annual rate of profit will be double what it would have been if he had turned it over only once. But the source of his profit will still be the same; if the rate of profit with a single turnover is determined by the organic composition of his capital, so will it be with a double turnover; and if not, not.

80 constant and 20 variable capital, and *B* to use 60 constant and 40 variable. In one turnover, *A* will produce goods to the value of $80 + 20 + 20$, or 120, and his rate of profit will be 20 per cent., while *B* will produce goods to the value of $60 + 40 + 40$, and his rate of profit will be 40 per cent. Any capitalist would, therefore, rather lay out his capital in the manner of *B* than in that of *A*. It is true that he would not gain by employing slower workmen, or undoing and re-doing the work, like Penelope at her web ; for only the socially necessary labour creates value.¹ But he will still prefer to invest his capital in a line of business in which the necessary expenditure on wages bears the largest possible proportion to the necessary expenditure on other things, e.g. in coal-mining rather than in smelting. Unfortunately he exhibits no such preference, and, except so far as he positively welcomes labour-saving machinery, is indifferent to the organic composition of his capital.

Marx explains that this discrepancy between theory and fact arises because, under the influence of competition, an average rate of profit comes to be substituted for rates varying with the organic composition of capitals ; so that commodities, instead of exchanging in accordance with their *values*, come to exchange in accordance with their *prices of production*. By price of production he means a price which restores to the capitalist what he has spent on materials and instruments of production and on wages, and yields him besides a profit at the average rate on his total capital. Thus, suppose that with £1,000 a capitalist can buy leather, thread, nails, machinery, &c., for 500 pairs of boots,

¹ This part of the doctrine is examined *infra*, pp. 82-5.

and also pay workmen to make them (it is assumed of course in these figures that either the machinery is used up in making the 500 pairs, or only such a fraction of its cost paid for out of the £1,000 as making them consumes of its working-life). Suppose also that the average rate of profit is 10 per cent. Then the price of production of the 500 pairs of boots is £1,100, and that of each pair 44s. : the cost price of the lot being £1,000, and of each pair £2. Generally, if k = cost price, and p' = rate of profit, the price of production will be $k + kp'$. All this comes to happen irrespectively of the organic composition of capital, and whether the cost of production include the purchase of a greater or a less quantity of labour, and so allow the appropriation in different cases of a greater or a less amount of surplus-value.¹

Thus the original theory is that the exchange-relations of commodities are determined by the amount of labour-time incorporated in them, which constitutes their real value. The objection is that they do not exchange in this proportion. The answer is, that their *values*, which are based on and accordant with labour-time, are 'transformed' into *prices of production*, which are not. It is obvious that a value, as understood by Marx, cannot really be *transformed* into a price of production; and it must be meant that for a determination of exchange-relations by values is *substituted* their determination by prices of production. It is difficult to see how this answer differs from an admission of the soundness of the objection, and an abandonment of the theory that labour-time is the source of exchange-value. But if Marx could show that exchange-relations once

¹ *Capital*, III, p. 189.

were accordant with labour-time, and profits did vary with the organic composition of capital, and could indicate the circumstances which have worked to equalize these originally varying rates of profit, his theory might still be saved. This is what he professes to do. 'The real difficulty', he says, 'lies in the question, How is this equalization of profits into an average rate of profit brought about, seeing that it is evidently a result, not a point of departure?'¹ The last words plainly imply that the exchange-relations, and therefore the prices, of commodities did once conform to his law of value, and have been brought to diverge from it. But in his explanation of the divergence there is no evidence offered that they ever did conform to it.

The divergence is attributed to the capitalistic system of production, and the competition among capitalists characteristic of that system. When labourers work for themselves and not for an employer, their products exchange according to their values. Before the rise of capitalism, Marx holds that this in fact occurred. He cannot show it by appealing to historic records, since there are no records on the subject; but he tries to show it by argument.

In the argument to show this² Marx supposes two labourers working equal times (allowance being made for any compensation required by a difference in intensity of work).³ They have to purchase their tools and materials. The products of their labour will then have a value equal to the cost-price of their materials, the depreciation

¹ *Ibid.*, III., p. 205.

² *Ibid.*, pp. 207-8.

³ Marx does not explain how this compensation is to be calculated; it is of course no more really possible than the reduction of differences in intensity of pleasure to differences of duration.

of their tools, and the new value which their labour has created. 'This new value,' he says, 'would comprise their wages and the surplus-value, the last representing surplus-labour exceeding their necessary wants, the product of which would belong to them. If we were to use capitalist terms, we should say that both of them receive the same wages and the same profit, or the same value expressed, say, by the product of a working day of ten hours'.¹ Nevertheless, if one, say *A*, has been working upon a costlier material than the other, *B*, the values of the commodities produced by them will differ. And, if we regard them as investing in production the cost of tools and materials, and the means of subsistence consumed by them while working, then their *rates* of profit, i.e. the proportions of surplus-value realized in their products to total capitals invested in them—will differ. But the *amounts* of profit, i.e. of surplus-value realized, will be the same, and will bear the same proportion to their *variable* capitals, i.e. to the value of the means of subsistence needed to maintain them in equal periods of production, which value, if they had been working for an employer, would have been represented by their wages. The difference in their rates of profit will be of no consequence; and their products will exchange with each other in accordance with the values in them, i.e. with the total values constituted (*a*) by the values in the plant, so far as it is depreciated, and in the materials used, and (*b*) by the labour added by them to these materials.

¹ *Capital*, III, p. 207. They do not of course actually receive wages, but if they were working for an employer they would receive wages covering the necessities of life, and it is explained that by wages here is meant the value of those necessities.

This, I think, is a fair presentation of Marx's argument. In examining it we may first ask whether *A* and *B* are to express the values of the products which they exchange in terms of some measure of value, i.e. money. Supposing not, they will be still at the stage of barter. Now if tools and materials were provided by a third party, it is possible that each might expect the other to put in the same number of working hours as himself upon what they were then to exchange. In such a case, Marx's description of the facts would apply. But it is equally possible that they might not; that, e.g., *A*, a smith, if he spent half a day in forging a hook for *B*, a hedger, might expect *B* to spend a whole day in trimming his, *A*'s, hedges. All, then, that we can say so far is, that, *if* two men think their labours of equal value, they will exchange equal amounts of them as embodied in what they make or do. This is very far from showing that all commodities, in a pre-capitalistic age, will exchange according to the amounts of labour embodied in them.

But suppose the products to have their value expressed in terms of a common measure, and so to be priced; and Marx implies this stage to have been reached, when he says that the men would have in their respective products, besides the value added by their own labour, 'an equivalent for outlay, the *cost-prices* of the commodities consumed by them'.¹ Is it now true that when workmen work for themselves, like (say) a silver-smith and a cobbler, they would agree to express the values added by their labours in equal periods of time to the cost-prices of their materials by equal additions to

¹ *Capital*, III, p. 207; italics mine.

those cost-prices? Clearly not. Where two workmen would be so content, it is because they put the same value on a day's labour; but many workmen put on it different values. So far, therefore, from finding the substance, or even the measure, of value in labour-time, they regard their labour itself as a thing whose value is to be measured in terms of something else.

The value which labour-time is supposed to confer or constitute is conceived by Marx as something absolute, something lodged in a commodity as water might be; so that an exchange of commodities not according with the labours embodied in them is manifestly unjust, as not according with their values. That all labour ought to be equally rewarded for equal times is an ethical proposition, which neither can receive support from economic facts, nor solves any economic problem. Marx himself does not accept it without qualification, since he says that labour not socially necessary confers no value; a man who works longer than another in making the same article because he is clumsy or sticks to antiquated methods ought not, he thinks, on that account to receive more; though his labour does not cease to be labour on that account. But that value in exchange is 'congealed labour-time', Marx offers as an economic truth, to which he gives an appearance of ethical significance by making value something thus intrinsic, and at the same time expressing it in money. For he argues that if, after I have worked for a day upon some material, it has acquired an additional value expressed by 15s., and I receive only 10s., some one is robbing me of one-third of the value which I, by depositing my labour in the material, created; whereas under a pre-capitalistic

system not only should I, as now, have created all the value, but also should retain it all. But that nobody else under a pre-capitalistic system makes any gain out of the price of the commodities on which I, or other independent producers, have worked does not show that the gains we make are just, or are proportioned to the amounts of labour we have bestowed on them, nor that it would be just if they were so, nor yet that it is unjust that under a capitalistic system others, besides those who have bestowed labour on them, should make some gain out of the price of them.¹

There is another weak point in Marx's argument. He omits to ask how *A* and *B* get their tools and materials. Suppose the value of each day's work to be the same, yet *A*'s tools and materials may be twice as costly as *B*'s. They can only afford to pay for these if the value of their work, as realized in the difference between the prices they get for their products and those they pay for tools and materials, is greater than the value of their means of subsistence, as expressed in the cost thereof. This excess is the surplus-value or profit. Marx

¹ On Marx's theory, value and price are heterogeneous: value is congealed labour-time, price is an amount of money; and though price-relations should, and once did, agree with value-relations, they need not, and now do not. Yet he constantly slips in his argument from one to the other, or speaks as if to know a value were to know a price. Thus on p. 207 he first speaks of the *values* of the 'various instruments of labour and raw materials' of his two producers differing, and then of each having in his product an equivalent for the *cost-price* of the means of production consumed 'by their labour', as well as equal amounts of new *value* created by it. There is apparently no consciousness that an important substitution has been made without any justification offered. And it is plain that you cannot really add a value and a price into a homogeneous total, if value is what Marx says it is.

supposes it equal for *A* and *B*. But it will take, say, six months of *A*'s work to pay off the outlay without which he could not have started, while *B* can earn enough by three months' work to pay off his lesser outlay. It is true that after one turnover this disadvantage ceases, for each recovers his original outlay in his selling price, and can start again at once; and three months' profit may be a negligible difference in a life-time. But the difference of the necessary initial outlays might be very much greater, so that several-years of *A*'s profits, if they were the same *per annum* as *B*'s, would be required to cover his outlay. In that case, ought he not to be compensated by receiving something more than the same rate of profit on his 'variable capital' or labour—something more than the same addition to the bare cost of his means of subsistence? And, incidentally, would not this compensation be interest?

Marx, then, has failed to show that in a pre-capitalistic era exchange-relations corresponded to values; or even that the prices of commodities exceeded those of the materials and instruments of their production by amounts varying as the labour-time spent on those materials. Nor does it so happen in fact. The same independent labourer would no doubt as a rule expect to realize prices for the different things that he makes exceeding his costs by amounts proportionate to the lengths of time for which he has worked on them; and different independent labourers exercising the same kind of labour in the same market would expect prices exceeding their costs by amounts proportionate to their several lengths of labour. But independent labourers exercising different kinds of labour neither expect

always nor get always profits thus proportionate. A faggot-maker converts wood into faggots, a joiner into window-frames and doors, a cabinet-maker into exquisite furniture. Whether the values of their wood and tools be equal or not—and Marx admits that this should make no difference—the values of their outputs expressed in prices exceed them by amounts very unequal for equal periods of work. So also, where there is no question of exchange, but only of payment for services, it is not found that in a pre-capitalistic era these payments are proportioned to labour-time. In the simple community of certain Indian villages, unquestionably pre-capitalistic, the village servants who do not themselves cultivate are paid in grain from the village stock ; but their shares are neither equal nor proportionate to the lengths of their working-day, but to the supposed differences of their castes or callings in dignity or importance. Again, in various industries, where workmen of different crafts have different rates of wages, a rise given to the lower paid will often cause discontent among the higher paid, until this approximation of rates is removed by raising theirs also.¹ This is because they think their labour more valuable for equal times, not because they think it contains in equal times larger quantities of simple labour. It is true that equalitarian sentiment sometimes operates to assimilate time-rates of wages ; but this influence of a theory of what ought to be neither shows that it originally was, nor that it really ought to be. But it may be urged that the apparent disproportion, even in a pre-capitalistic era, between exchange-relations, or rates of payment, and the amounts of labour paid

¹ Cf. the history of the notorious 12½ per cent. rise in 1917.

for, or embodied in the commodities exchanged, would disappear, if we reduced these qualitatively different labours to terms of homogeneous simple labour. In reply to this it must be pointed out, firstly, that Marx writes as if the conformity of the facts to his law of value were plain to see under a pre-capitalistic system; and if it is invisible until this reduction is effected, that is not true. And secondly, how is the reduction to be effected? By what means shall we determine how many hours of the simple labour of a faggot-maker are contained in one hour of a joiner's or a cabinet-maker's labour? We can only do it from the different sums which they charge by time, or add *per* hour to the cost-prices of the materials on which they work. And to determine it thus is, for Marx, to argue in a circle. For he has to show that the exchange-relations expressed in the prices of things produced by independent labourers are determined by their values in labour-time. To show this, he must show that equal times of labour put into materials make equal increments in their prices. To this end the qualitatively different labours for which it is not true are to be reduced to quantitatively different amounts of labour of a common denomination. But if we use the prices to make this reduction, we first assume that differences in price express differences in the amounts of homogeneous labour, in order then to show that the amount or duration of this homogeneous labour is what determines prices.

If then there was never a time when commodities exchanged at their 'values', and when profits were proportioned to surplus-labour, the supposed process by which commodities have been brought to exchange

instead at their prices of production, and profits to be in proportion to total capital, can never have occurred. But a consideration of Marx's account of the process will further illustrate the confusion into which his theory plunges him.

Prices of production are such as will cover costs of production, and yield besides a rate of profit approximately the same for all spheres of production, instead of rates varying with the organic composition of capitals in different spheres. Originally, it is alleged (though, as we have seen, without foundation), rates of profit did so vary in different spheres; and the process to be explained is the process which has substituted for prices yielding these varying rates of profit prices yielding approximately the same rate in all spheres. This approximately equal rate is said to be reached 'by drawing the average of the various rates of profit in the different spheres of production'.¹ But the detailed explanation does not accord with this description. For to draw this average would imply that various rates of profit had first arisen from selling goods of different kinds at prices that were not prices of production, but corresponded with the differences in the amounts of surplus-value which the organic compositions of the capitals enabled producers in different spheres to appropriate; that these rates

¹ *Capital*, III, p. 185. 'The prices which arise by drawing the average of the various rates of profit in the different spheres of production and adding this average to the cost-prices of the different spheres of production, are the *prices of production*. They are conditioned on the existence of an average rate of profit, and this, again, rests on the premise that the rates of profit in every sphere of production, considered by itself, have previously been reduced to so many average rates of profit.'

were then ascertained, and their average calculated; and that prices were then deliberately fixed which would yield the average rate.¹ Such an operation is intelligible, though it could not be shown that it has occurred. But the supposed process, the account of which we have to examine, is something quite different²; and the averaging which is supposed to have occurred in the course of it is, as will be seen, not intelligible.

It is further stated that, before drawing this average, another process of averaging, or set of processes, has been carried through, whereby a single rate of profit is fixed for each separate sphere of production.¹ Mathematically it would be as easy to find the common average for all spheres from many different rates in each sphere as from a single average rate in each; and it is not at first sight plain why Marx should suppose that the determination of a special average rate for each sphere must precede that of one average rate for all spheres. He says that these special rates of profit 'must be deduced out of the values of the commodities, as shown in volume I'.³ Now what he did assert in volume I was that different producers in one sphere of production obtained not indeed an average rate of profit, but an average amount of surplus-value. The assertion was directed to explaining how it is that a particular producer economizing in his employment of labour does not thereby reduce his profit, although all profit is derived from the employment of labour. The reason,

¹ See note, *supra*, p. 65.

² *Capital*, III, p. 186. 'These different rates of profit are equalized by means of competition into a general rate of profit, which is the average of all these special rates of profit.' [Italics mine.]

³ *Capital*, III, p. 186.

as will be remembered, was said to be that the surplus-labour which, as embodied in his output, is the source of his profit, is not the unremunerated labour of his own workmen—the amount of which will be less, at the same rate of exploitation, if he employs fewer workmen—but his proportionate share of the total unremunerated labour exerted by all workmen employed in his sphere of production ; in other words, for the different quantities of labour embodied in the several equal parts of the total stock of some commodity is substituted, as the source of their value, the average quantity of labour in them. This is certainly not an averaging of rates of profit ; in fact Marx is explaining why rates of profit are different for different producers—and different in such a way not that those who economize in their wages-bill make a less rate, as his theory would seem to require, but that they make a greater rate. Nevertheless profits, and therefore rates of profit, are, according to the theory, derived from surplus-value ; and it is possible that an account of the averaging of amounts of surplus-value, which are the source of rates of profit, is confusedly regarded as an account of the averaging of rates of profit, and that the determination of an average rate of profit in a given sphere of production is again confused with that of a single market price. This hypothesis is supported by the following consideration. The undoubted fact that a capitalist economizing in his wages-bill increases, *ceteris paribus*, his rate of profit is really due to the existence of a single market-price, which he continues to get for his produce, though he has reduced his costs. But this explanation does not, on Marx's theory, go to the root of the matter ; for

though exchange-relations are expressed in prices, he holds that they are, or originally were, determined by values in labour-time; hence the single price which equal portions of the stock of any one commodity will fetch in the same market reflects equal values lodged in those portions. To show, therefore, how those values are equal, in spite of differences in the amounts of labour employed by different capitalists producing these equal portions, would be to show why the price is the same. Now actually, in the argument by which he endeavours to explain how prices of production yielding an approximately equal rate of profit in all spheres of production come to be substituted for prices yielding varying rates of profit proportionate to the varying organic composition of capitals in different spheres, Marx begins by explaining the formation in each sphere of a single market-price. If then we may regard the formation of the single market-price as reflecting an averaging of the amounts of surplus-value, the supposition that Marx confuses this with an averaging of rates of profit would account for his saying that average rates of profit must be established in each separate sphere of production before a common average is established for all spheres, and then beginning his explanation of the second process by reference to the establishment of single market-prices.

However this may be, there are in fact two things which, on his own theory, Marx has to explain, and to the explanation of which he actually directs his argument in the third volume: (1) that a single, though it may be a fluctuating, market-price comes to prevail for all parts of the stock of one commodity in the same market;

whereby, as we saw, a particular capitalist economizing on wages will obtain a higher rate of profit than his competitors in that line, instead of a lower, as the theory of value would seem to require ; (2) how these market-prices come to be so adjusted that commodities of different kinds yield to capitalist producers the same rate of profit, instead of rates proportionate to the organic composition of their capitals. If this has occurred, the single market-prices must once have expressed labour-time values ; not, indeed, the actual labour-time values of different pieces of goods, one of which may embody more or less labour than another of the same kind, but the average labour-time value of all such goods on the market. Afterwards, when they have become prices of production, they express the average labour-time value not of such goods, but of goods in all spheres of production ; and the surplus-value filched from weavers, foundrymen, miners, and shipwrights is pooled to make an average rate of profit for mill-owners, iron-masters, colliery-owners, and ship-builders.

It has then to be shown that at the outset of the capitalistic system, before it was modified by competition in the course of its further development, there was a single market-price for commodities in each separate line of production, which expressed the average value of commodities in that line, and yielded a rate of profit appropriate to the organic composition of capital in that line, and differing from the rate yielded in other lines where the organic compositions of capitals were different. Now if we ask how this might conceivably be shown, two ways suggest themselves. (a) If we knew what at the outset the various single market-prices were,

and what was the average amount of labour embodied in the various commodities so priced, and if we possessed a means of reducing these amounts of qualitatively different, or specific, labours to terms of homogeneous simple labour, and if in addition to all this we knew the proper price of homogeneous simple labour, we might show separately for each commodity that its price per unit corresponded to the average amount of labour in the units of that commodity. (b) If, though the proper price of homogeneous labour were unknown, the remaining conditions above enumerated were fulfilled, we might succeed in showing that there was the same ratio between the amounts of homogeneous simple labour thus ascertained for any two commodities as between their market-prices. This would give us good reason for asserting that the prices did express values in labour-time, though we could not deduce it from a known price for units of this value.

But none of these conditions are satisfied. The prices we know are present prices, which admittedly do not correspond to values; the supposed original prices are not known. Neither do we know the average amount of labour originally embodied in commodities of each kind, nor can we reduce these specific labours to terms of homogeneous simple labour, nor have we any price for units of this. The most, therefore, that Marx's argument can attempt to show is, first, how there comes to be a single market-price for each commodity, and secondly, how there come to be prices of production that yield in different spheres the same rate of profit. He cannot even show that once, at the outset of the capitalistic era, there were single market-prices that

were not prices of production, any more than he succeeded in showing that in a pre-capitalistic era prices conformed to his law of value.

The whole argument is so confused that it is difficult to condense it into any account sufficiently coherent to criticize. But the contention appears to be this. First, in place of the individual values of the different parts of the stock of each several commodity there comes to be established a single and common 'market-value'. With this market-value market-price corresponds, though fluctuations in the relation of supply and demand make it temporarily rise above or fall below the market-value; and at such times profits in that line of production exceed or fall short of what the market-value would afford. But if the market-value in one particular line of production (to which profits in that line thus gravitate) be higher than in another, more capitalists will come into that line, and their competition will depress the market-value. Thus market-values, which are the centres of gravity for profit, are assimilated; and rates of profit are left to fluctuate temporarily with variations in the relation of supply and demand, not to differ permanently with the organic composition of capitals.

The argument thus far turns on the conception of a *market-value* distinct equally from the *individual value* of a commodity, from the *market-price* and from the *price of production*. It is something related to a definite price, because we can say that a given market-price is above or below it, or conforms to it correctly. But though thus related to or expressible in a certain price, it is based on the socially necessary labour embodied in the commodity.

But a 'market-value' can never be ascertained thus independently of the price. For a capitalist may be ignorant how much labour-time is embodied in the commodities which he produces; still more, how much of this is socially necessary. Marx's disciple Engels himself allows this, when he says¹ that a capitalist does not generally know how much variable capital is invested in his business; he is familiar with the distinction between fixed and circulating, but not with that between constant and variable capital. We must then, in order to determine whether the market-price correctly represents the market-value, seek a rule which does not require a separate ascertainment and comparison of the two. And in order that one may so represent the other Marx says that two things are necessary: (1) the different individual values of the several parts of the stock of any commodity must have been averaged into one *social* value, which is the market-value²; (2) the quantity of the commodity on the market must be such as the total demand can just absorb.³ As there is no market-value till the first is done, Marx is in effect only saying that market-prices correspond to market-values when the supply is just equal to the demand. The 'bourgeois' economists whom he derides would point out that supply can only be said to be equal to demand *at a given price*, and that there may be several different prices at which equilibrium may be attained, only one of which at any rate can correspond to the market-value. Marx overlooks that.

The averaging which establishes a single market-

¹ *Capital*, III, ch. iv (written by Engels), p. 90.

² *Ibid.*, III, p. 213.

³ *Ibid.*, III, p. 218.

value is effected, we are told, by competition between producers. But this is nonsense. An average is ascertained by arithmetic ; and if the individual values were known, it could be settled without competition ; if not, it could not be settled at all. Now the individual values are not known, being a function of the labour-time embodied in each unit of a commodity, which is not known. And competition can only act on *prices*, not on values, and does not necessarily, where the same commodity is offered at different prices, tend to substitute for these their average. If there are more buyers at the top price than the stock offered will supply, it will substitute the top price ; and if there are more sellers ready to take bottom price than the demand will exhaust, it will substitute the bottom price ; and the common price may fall anywhere between these. Marx's pretended account of the effect of competition on *market-values* then is an inaccurate account of its effect on *market-prices*, which it does bring to unity, but does not average.

Having given this impossible account of the establishment of single market-values, in which market-value is really another name for market-price, Marx proceeds to state the conditions under which market-prices will approximately correspond to these market-values ; and in this part of his argument market-value is another name for price of production. The conditions are these : (a) exchanges must be constant ; (b) the commodities must be produced in sufficient quantities ; (c) there must be no accidental or artificial monopoly.¹ When there is a sudden increase of demand which cannot be met at once by increasing the supply, or a glut beyond

¹ *Capital*, III, p. 209.

the possible immediate extension of the demand, market-prices will for the time rise above or fall below market-values.

Now these conditions are economically important, because there is something to which they hold market-prices close; but this is prices of production, not 'market-values'. Thus it becomes clear that market-value, if not the same as market-price, is but price of production under another name. It is true that Marx distinguishes them,¹ and indeed supposes himself to be explaining how prices according with 'market-values' are 'transformed' into prices of production. But, if they are not the same, why should the introduction of a cheaper mode of producing a commodity reduce, as Marx says it does,² its market-value? Plainly what this reduces is its price of production. For a price of production is one which, after covering the *cost* of production, in wages, materials, &c., leaves to the producer the average rate of profit, i.e. such rate for which undertakers are commonly ready to carry on business; not notably more, or it would tempt more producers into that line of production, and give rise to a glut, nor notably less, or some would get out of the business, and there would be a shortage. No doubt the cheapening of the mode of production may be effected, as Marx assumes it to be, by some reduction of the 'socially necessary labour'³; but this is not sufficient to show that there is any market-value, distinguishable from

¹ *Capital*, III, p. 229.

² *Ibid.*, III, p. 228.

³ *Ibid.*, III, p. 228. But it might be due to other causes, e.g. diminution of waste, the discovery of a means of utilizing by-products, or cutting of wage-rates.

price of production, which is reduced by reduction of the 'socially necessary' labour.

The single so-called market-value then of a commodity is but another name at one time for the single market-price, at another for the price of production. The account of the process by which it is substituted for the individual values of the different parts of the stock of one commodity is merely an inaccurate account of the process of establishing a single market-price. This process has nothing to do with values in labour-time, and the single price is not reached by averaging either individual values, or individual prices. Individual values, reckoned in labour-time, nobody thinks of; and market-prices have no relation to them; they have relation to the amount of labour for which wages must be paid, but this is specific labour, and the wage which will call it forth will depend not on its equivalence to so much homogeneous simple labour, but on current standards of living, on demand and supply, combination and competition, legislative *minima*, and so forth. Moreover, individual prices are not averaged in the single market-price. Again, the account of the process by which, for market-values, are substituted prices of production is an account of what never occurs; for there never was a time when market-values existed yielding in different lines of production profits proportionate to their variable capital. The movement of capital from less to more profitable lines of production, which is supposed to 'transform' market-values into prices of production, is really only the agency which keeps market-prices near cost of production; here market-value is another name for market-price; and

when later the so-called market-value is said to be the centre to which market-prices gravitate, it is but another name for price of production.

Moreover, if we reflect, we find the averaging process, which Marx supposes competition to have exerted on the different market-values, so as to produce prices affording a common rate of profit, to be quite unintelligible.¹ Since the argument to show this will be the same, whether we suppose the averaging applied to 'market-values' or market-prices, we may state it with reference to market-prices, which are real and familiar, not to market-values, which are unfamiliar and fictitious. An average is derived from numbers; and no average can be found for a set of terms, unless each term is first expressed in a number. For this purpose, we must know what is *one* term. Sometimes, there is no difficulty in knowing this. We may find the average or mean level of the sea at Liverpool, because its levels at different times can be expressed as so many feet and inches above or below some given line; and *one* level is the level at the moment of one observation. So, if we want the average price of wheat landed at Liverpool, we shall take as our units so many equal quantities of wheat by weight, say tons. The wheat will be delivered in shiploads, and each shipload will have a value expressible in pounds, shillings, and pence; but the shiploads will be unequal, and the average we want is not the average price per shipload, for we do not

¹ An averaging of rates of profit is of course intelligible; but though at the outset Marx says that the uniform rate of profit is reached by 'drawing the average of the various rates of profit in the different spheres of production' (*Capital*, III, p. 185), in his subsequent exposition he speaks of averaging market-values.

know what quantity one shipload is, but the average price per some fixed unit. The fact that wheat can be measured by weight makes it possible to find an average in this case ; tons of wheat are comparable units. But how are we to strike an average of the market-prices of all commodities? We shall no longer know what ought to be treated as one term. Our different lines of production will proffer wheat, pig-iron, wool, cloth, coal, beds, chronometers, polo-ponies, rose-trees, field-glasses, and everything else besides. We are to average their prices ; the figures of our prices will depend on the units taken ; what units are we to take? If we take equal weights, who will quote by weight for polo-ponies or chronometers? If we take one specimen of each commodity, how much is one specimen of wool or wheat or pig-iron? The unit in each line of production must be fixed independently and arbitrarily ; yet every difference in our choice will alter the average. To talk of an average price or average value for commodities of all kinds is quite meaningless.

We must then conclude that Marx has wholly failed to remove the objection to his theory of value raised by either of the two apparent discrepancies, noticed at the end of the last chapter,¹ between it and facts, viz. that the rates of profits in different industries do not vary with the proportion of the wages-bill to other costs, and that a capitalist economizing on his wages-bill, which is supposed to be the source of his profit, finds nevertheless that his profit is thereby increased.

We may look a little further at the solution offered of the latter discrepancy. At first it is, as we have seen,

¹ *Vide* pp. 49, 50, *supra*.

that he still gets the average share of surplus-value, derived from the average labour in commodities of the kind which he produces, and constituting their social or single market-value. It was shown that this conception is untenable; a capitalist economizing in production, whether on his wage-bill or otherwise, increases his profit because he still sells at the single market-price which is not an embodiment of the average labour-time. But in the third volume Marx goes farther. 'The individual capitalist, or even all the capitalists in each individual sphere of production, justly believe that their profits are not really derived from the labour employed in each individual sphere.'¹ Instead of pooling all the values in the different commodities of one kind to determine how much will belong to a particular sample, Marx here pools the values in commodities of different kinds. And what the capitalist fails to see, as here stated, is that his profits are due to the universal exploitation of labour by the total social capital.

Now whether the capitalist fails to see that his profits are due to the aggregate exploitation of labour in his own sphere of production, as alleged in the first volume of *Capital*, or to the larger and universal exploitation of labour by the total social capital, as alleged here, he is certainly right. For if his profits were his share of either pool, the effect of his economy, whereby he exploits less labour and so contributes less surplus-value to the pool, would diminish *pro tanto*, however slightly, his own as well as every other capitalist's share. But the actual effect is to increase his, without necessarily diminishing theirs. But the particular point to be noticed in the new version of Marx's doctrine given in the

¹ *Capital*, III, p. 201. Italics mine.

words italicized above is that, as Böhm-Bawerk has shown¹, it involves an abandonment of the original thesis. It is now pretended that when a capitalist increases his profit by reducing his wages-bill, in spite of the fact that by reducing it he curtails his immediate source of profit, the increase is still derived from surplus-value, only not from that alone which he appropriates, but from that produced by the total surplus-labour of the whole community. What Marx had to show was, that in fact, at some period in the history of production, the ratio of the profit realized in a business to the amount of surplus-value appropriated in it was constant for all businesses. This he never shows; and admits that it cannot be shown, when he admits that an individual capitalist may increase his profit by reducing the labour, and therefore the surplus-labour, in his business. But in the first volume of *Capital*, the objection to be drawn from this admission was met by saying that the individual capitalist derives his profit from his proportionate share of the aggregate surplus-value appropriated by all the businesses belonging to his sphere of production. For the reason given at the outset of this paragraph, that answer is unsatisfactory; but if we accepted it, there should then at least be a ratio constant throughout all spheres of production between the aggregate profits realized by all capitalists in any sphere and the aggregate surplus-value appropriated in it. In the passage before us Marx abandons the attempt to show even this.

Instead he points out that the ratio of the average

¹ I cannot now find my original authority for this reference. The criticism will however be found fully developed in his *Karl Marx and the Close of his System*, E. T., pp. 68 sq. (T. Fisher Unwin, 1898), a work which, I am sorry to say, only came under my notice in looking for my authority while revising the proofs.

profit to the average surplus-labour is single, and urges that this supports his theory. 'Because the total value of the commodities regulates the surplus-value, and this the level of the average profit and the average rate of profit, the law of value regulates the prices of production.'¹ But I could as easily prove that weight regulates them. For prices of production attach to commodities, and there are no commodities without weight; and though there is no constant relation between the price of production of a commodity and its weight, yet the ratio of the average price of production to the average weight is single.²

A consideration of averages may often be fruitfully substituted for that of individuals, if the individuals fall into several groups, and the averages are taken for each group. Suppose, for example, that the averages for one element (say profit) were found to differ conformably to the differences in the averages for another element

¹ *Capital*, III, pp. 211-12.

² The above criticism may be expressed quite generally. Let M be something which exhibits variable amounts of two measurable characters, A and B ; and let there be any number n of M 's; and let the aggregate amounts of the two characters A and B in all the M 's be x and y respectively; then there will be a ratio of the *average* amounts of A and B in them, and of course a single ratio, viz. $\frac{x}{n} : \frac{y}{n}$. But the ratios of the *particular* amounts of A and B may nevertheless be different for each M . Thus let M be a commodity, and n , the number of commodities, be 4; let A be profit and B surplus-value; and let x be the aggregate profit, and y the aggregate surplus-value, in the 4 commodities. It follows that the ratio of the average profit to the average surplus-value will be $\frac{x}{4} : \frac{y}{4}$; and if $x=y$, the average profit will be equal to the average surplus-value (though obviously the ratio of x to y has nothing to do with the singleness of the average ratio). But the particular amounts of profit on each of the 4 commodities may be related as $\frac{2}{25}, \frac{3}{25}, \frac{7}{25}, \frac{13}{25}$; while the corresponding particular amounts of surplus-value in them may be related as $\frac{1}{25}, \frac{5}{25}, \frac{6}{25}, \frac{11}{25}$; and the ratios of profit to surplus-value in the several commodities, viz. 2 : 1, 3 : 5, 7 : 8, 13 : 11, are all unequal to the ratio $x : y$ of the aggregates and to one another.

(say labour-time) throughout a series of groups (say those formed by the businesses in so many distinct lines of production) ; we should then have good reason to suspect a connexion between the two elements. Or again, when we have to take an action in regard to a number of individuals, that is based upon some element present in all, but present in varying strength or magnitude, then, where the effects of contrary errors will neutralize each other, a knowledge of the average strength or magnitude of this element may serve instead of a knowledge of the details of every case. Thus a life-assurance company can safely act upon a knowledge of the average expectation of life of its clients at each age ; though to an assurer, interested only in his own case, the problem is different ; if he is to know whether he will make a good bargain by insuring his life, he must know how long he himself will live. But where neither of these conditions is realized—neither that different averages be taken for distinct groups, nor that, if a single average only be taken, the effects of contrary errors neutralize each other—an average is useless. An oculist who prescribed for all his patients glasses suitable to the average myopic deviation would benefit very few of them ; and an irrigation engineer who constructed his reservoirs and sluices to suit the average rainfall would be of no use whatever. Nor, if I want to prove a connexion between two elements throughout their fluctuations in a series of individual cases, can I do anything by finding the averages of each element for the whole series. But Marx does not appear to understand the proper limits to the use of the appeal to averages. He misuses it not only in the instance just considered,

by substituting, for the ratios of the individual market-prices in the several lines of production to the amounts of labour embodied in them, the ratio of the averages ; but also when he says that the labour-time constituting the value of a commodity is not what is embodied in that particular commodity, but is an *aliquot* part of the labour-time embodied in all the commodities of that kind which have been produced by the labour socially necessary to satisfy the social demand for that commodity. In regard to the various similar pieces, such as horse-shoes, produced by one labourer, to substitute for the values of each piece based on the labour-time expended on them an average value based on the average labour-time would not signify in the fixing of a price. For the contrary errors that would arise through fixing a uniform price sometimes above and sometimes below the individual value would neutralize each other. But the substitution would no longer be insignificant if each piece were made by a different labourer ; for one labourer would get more and another less than his labour justified. If *A*, *B*, and *C* be three boot-makers working on their own several accounts, and they can produce respectively three, four, and five pairs of hand-made boots in a week of forty-eight hours, labouring with equal intensity, and if the cost of materials is £1 per pair, and the full value of their week's labour £4, is it just that the boots should be sold at a uniform price of £2 per pair, and that they should receive, after paying for their materials, net incomes of £3, £4, and £5 respectively ? Marx defends it on the ground that *A* exerts less and *C* more than the socially necessary labour. Now the labour socially necessary is merely the average

labour expended on each pair of the stock of boots required to satisfy the effective demand of the society. It is a mere accident that any particular boot-maker's expenditure of labour on a pair of boots should coincide with the average, not less an accident, than if he happened to be of the average height of all boot-makers. If all value be created by labour, and justice require that a man receive the full value or equivalent of his labour, a man should receive more for a pair of boots, if more labour has been spent on them; what reason is there in saying that the equivalent of each of the unequal labours of other boot-makers on a pair of boots is the value of that one boot-maker's labour on a pair which happens¹ to coincide with the average? On what self-evident principle of justice should *A* receive less and *C* more than *B* for his equal week's work? No doubt to *P*, a purchaser, it may seem unreasonable that he should have to give more for a pair of boots to *A* than to *C*, since to him they are worth the same. But if value is really created by labour-time, and if there is more labour-time embodied in the boots of *A*'s than in those of *C*'s making, *A*'s are really more valuable. How are we to adjust these two standpoints, that of *A*, who says 'These boots are intrinsically more valuable than *C*'s, because more labour has been expended on them', and that of *P*, who says 'They are to me of the same value, because one satisfies my needs as well as the other'? In other words, how are we to adjust the conception of a value in an article depending not on the want of it but on the

¹ There need not actually be any pair of boots into which has been put precisely the average number of hours of work per pair.

labour in it, and the conception of a value depending not on the labour in it but on the want of it? Marx has not cleared this up, or even faced the question. He qualifies the first conception by the second when he says that the labour conferring value is only the socially necessary labour; and again, when he makes the supposed market or social *value* fluctuate with the temporary disturbances in the relation of supply and demand. For it is the indifference of the need, as between the several articles of one kind on the market, that makes values uniform for them all; and again the fluctuations in the need, that make this uniform value fluctuate. Marx could not afford to say that the need establishes only a uniform *price*, not accordant with value; for then he would have had to call the *values* of the several articles of one kind on the market different, and the existence of the single price, which is just as necessary whether the market be supplied by capitalists or by independent producers, would be unjust. Such a position would be too paradoxical; for there is clearly no justice in making a purchaser give more for one than another of two exactly similar articles. But there is equally clearly no justice, on Marx's theory, in making a producer sell an article below its intrinsic value. Thus, as was said above¹, the proviso that the labour constituting the value of an article is the socially necessary labour in it is irreconcilable with the main doctrine. To avoid the contradiction that would be involved in saying that it is unjust to make the purchaser give the just price of an article, Marx modifies the doctrine of a value created by labour by a qualifica-

¹ Ch. II, p. 43, n. 1.

tion based on a conflicting conception. If value springs from embodied labour, demand cannot affect the true value.

It might be said by those prepared to admit an element of truth in both pleas, those of the producer who sells and of the wanter who buys, that the only system under which they can be satisfied together is the communistic. Marx observes in another connexion¹ that only when society pre-arranges and controls production will the quantity of social labour-time employed in the production of a given article be adjusted to society's demand for that article. If the control of production were in the hands of society—which means in practice, of some officials acting on behalf of the whole community—and if the same Treasury which paid the costs of all production received the proceeds of all sales, the makers of boots might be paid at different rates per pair, according to the amount of time they spent on making them, while the boots were sold at an average price for each quality. For the losses due to labourers who worked more slowly than the average would be neutralized by the gains due to those who worked more rapidly, the same Treasury incurring both. Whether under such a system the productivity of labour would be high, and whether the more rapid workers would think the system just, are other questions.

¹ *Capital*, III, p. 221.

IV

HOMOGENEOUS HUMAN LABOUR

THE business of a theory is to explain observed facts, and no theory can be true which entails consequences in conflict with the facts. To save it, it must be shown either that the facts are not as alleged, or that the argument deducing the conflicting consequences is faulty. Otherwise the theory must be modified or abandoned. The Newtonian theory of gravitation has been modified, and even the axioms of Euclid have by some been abandoned, in obedience to this logical principle. Now we cannot question the facts whose discrepancy with the consequences entailed by Marx's theory was pointed out at the end of Chapter II; and, as we have seen in Chapter III, he fails to show that his theory does not entail those consequences, and his attempts to modify it are not consistent with it. What then are we to do but abandon it?

We have not come, however, to an end of the error and confusion involved in it, and therefore owe it some further examination. The difficulties involved in making the labour which confers value on an article the socially necessary labour are great, but those which beset the conception of homogeneous human labour are greater. In his endeavour to support this conception Marx argues in a circle; he makes an appeal to facts which the facts reject; and the reduction of the different kinds

of specific labour to homogeneous human labour is vicious in principle.

(i) The circular argument which the reduction involves has already been briefly indicated,¹ but we may consider it a little more closely. Professedly, the exchange-relations of commodities are at the outset determined by their values, and their values are constituted by the labour-power congealed in them ; and skilled labour counts only as 'multiplied simple labour, a given quantity of skilled being considered as equal to a greater quantity of simple labour. Experience shows that this reduction is constantly being made. A commodity may be the product of the most skilled labour, but its value, by equating it to the product of simple unskilled labour, represents a definite quantity of the latter alone'.² Now obviously this equating must be done before fixing the exchange-relations of commodities produced by labours of different degrees of skill ; for till we have done it we cannot determine how much of the produce of a day's skilled labour is to be exchanged for the produce of a day's unskilled labour. In other words, if Marx's theory is to work, we must reduce heterogeneous labours to terms of homogeneous simple labour before prices are settled. But in fact the equation and reduction are made through the prices of the commodities into which the different labours enter. And this Marx himself acknowledges in another connexion. The passage is one in which he professes to lay bare the mystery in the nature of a commodity. There is nothing mysterious in a commodity as having value in use ; but as having value in exchange, it is, says Marx, a 'social hieroglyphic'

¹ *Supra*, p. 64.

² *Capital*, I, pp. 11-12.

which needs interpreting. Men's labours, considered as producing different kinds of useful things, rank separately in our view of society ; but considered as producing something which has a value not in the use of it by the producer but the exchange of it, they rank alike. This 'equalization of the most different kinds of labour can be the result only of an abstraction from their inequalities, or of reducing them to their common denomination, viz. expenditure of human labour-power or human labour in the abstract'.¹ The social character thus belonging to every kind of labour, in a community where division of labour and exchange prevail, viz. the character of being equal, in one aspect, to all other particular kinds of labour, shows itself in the products of labour as an objective character, viz. as the common quality of *having value*. 'Hence', proceeds Marx, 'when we bring the products of our labour into relation with each other as values, it is not because we see in these articles the material receptacles of homogeneous human labour. Quite the contrary : *whenever by an exchange, we equate as values our different products, by that very act we also equate, as human labour, the different kinds of labour expended upon them.* We are not aware of this, nevertheless we do it. Value, therefore, does not stalk about with a label, describing what it is. It is value rather that converts every product into a social hieroglyphic. Later on, we try to decipher the hieroglyphic, to get behind the secret of our own social products ; for to stamp an object of utility as a value is just as much a social product as language.'² Marx is not very lucid as a revealer of mysteries ; but what he appears

¹ *Capital*, I, p. 44.

² *Ibid.*, I, p. 45. Italics mine.

to mean is this : men living solitarily would have each to make just what he wanted himself. Whatever Robinson Crusoe laboured at (it is Marx's own illustration) his labour, in spite of the varieties of forms it would take, would be just his labour ; though, if we could speak of value where there is no exchange, the various articles of use which he made would be counted valuable just in proportion to the length of the labour bestowed on making them. Without exchange, however, value is not realized ; it gains no expression ; it is present in the various useful objects which Crusoe has made, but for lack of the social factor they are not stamped as values. But in a society, where every man no longer produces all he wants for himself, but men satisfy their divers wants by exercising each a different labour with a view to exchange, their labours are not only heterogeneous, as Crusoe's were, because making different things, but social, as his were not, because these things are exchangeable. But to be social is for them to be the labours of *one* society, as Crusoe's were the labours of one man, and therefore, like his, they are homogeneous. It is value in them derived from this social or homogeneous labour which makes products commodities, and gives them relations in exchange. Men do not realize that the value which makes their products into commodities comes from the homogeneous labour in them ; that is why Marx calls the exchangeable product a social hieroglyphic. They do not see the homogeneous labour in the articles which they exchange. But it is there, and makes their values (and Marx has discovered and revealed it) ; and hence in fact, when we equate as values different products—when, e. g., in exchange, we

say that a pair of boots is worth a sack of oats, or both are worth 40s.—we thereby equate the labours spent in producing them, in spite of their heterogeneity.

Now the last part of this train of argument acknowledges, and the words italicized in the quotation indeed actually say, that the reduction of heterogeneous to terms of homogeneous labour is effected through the exchange-relations of the products. The evidence, and the only evidence, that two unequal amounts of different specific labours are equivalent to the same amount of homogeneous labour is that commodities embodying them are exchanged at or have the same price. But why is this fact evidence of the equivalence? Only because it is assumed that the amounts of homogeneous labour embodied in commodities do determine their exchange-relations. And how is this principle known? It is certainly not self-evident, and it cannot rest directly on observation, since observation will not ascertain how much homogeneous labour is in any instance exerted. The clock will measure the time during which a workman exerts some specific labour, but not the duration of homogeneous labour to which this is equivalent. The amounts of homogeneous labour in different articles must then be somehow inferred. If we could by the help of any table of equivalents ascertain them from the amounts of different specific labours in articles exchanging, we might then discover that exchange-relations, though not conforming to the amounts of these, do conform to the amounts of homogeneous labour to which these have been reduced; and having established this as a general principle, we might then upon the strength of it deduce from the exchange-

relations of other particular commodities the respective amount of homogeneous labour in them. But we have no such independent table of equivalents. Equality of price therefore between two articles produced by unequal amounts of different specific labour remains the only evidence that they embody equal amounts of homogeneous labour. And that is evidence only if it be granted as a general principle that the amounts of homogeneous labour embodied in commodities determine their exchange-relations. Now that is the very principle to which we were seeking to show that facts conform. To establish a principle by pointing to facts whose alleged conformity to it is itself inferred from the principle to be established is to argue in a circle ; and this is what Marx does.

We may put the argument a little differently, as follows: Marx alleges that what gives things their values, and thereby determines their exchange-relations, is the amount of labour embodied in them : not, however, the hours of any specific labour, but the amount of homogeneous simple labour to which these are equivalent. Homogeneous simple labour not being directly measurable, nor indeed observable at all, this allegation cannot be confirmed by an appeal to experience. The proof offered is that exchange-relations or prices are a social hieroglyphic concealing or symbolizing the presence in the commodities priced of the proportionate amounts of homogeneous simple labour. To those who ask what evidence there is for the existence of this homogeneous simple labour, and that it constitutes the value of commodities and determines their prices, Marx replies ' Their prices represent it '. But the question is whether

their prices do represent anything of the kind, and whether there is any such thing; and Marx in his answer begs this question.

(ii) But his argument has another defect. To show that his principle is correct he makes an appeal to certain facts which do not bear him out. He appeals to the facts of the situation of a solitary producer; but there is no real analogy between the situation of Robinson Crusoe and that of a society. Marx is dealing with the difficulty that different kinds of labour impart unequal value to their products in equal times. Now the reason of this is that labourers of some kinds claim, and can enforce the claim, to be more highly remunerated than others. Whether, on account of his greater skill, or for any other reason, one man's rate of wages ought in justice to be fixed higher than another man's for the same duration of labour, is another question. It is anyhow clear that Robinson Crusoe could not claim to be a labourer deserving that his remuneration should be fixed at a higher rate than his own. And supposing that he attached equal value, for his private use, to things on which he had spent equal labour—a supposition by no means necessary—this would not show that the members of a society which collectively supplies its needs by division of labour and exchange give value to their products in proportion to the duration of the labour spent on them.

It is, indeed, possible that Robinson Crusoe, if he had a customer to work for, might charge at a higher rate for one kind of labour than for another; or that if he ever did think of bartering his wares when visitors came to the island, he might not be willing to estimate, on the

mere basis of the time devoted to their production, how much corn he should ask for each of them. Even for his private use, it is possible that he might attach unequal values to things on which he had spent equal labour. But on these suppositions no inference could be drawn from the facts of his solitary to those of our social situation, to support the principle that duration of homogeneous labour determines value. Marx, therefore, does not make these suppositions. They are, however, at least as plausible as those which he makes. And indeed if Crusoe did distinguish between different kinds of his own labour, and thought that his rate of remuneration should differ with the kind of it, and not depend merely on its duration (as a surgeon charges fees according to the difficulty rather than the length of an operation, and an Alpine guide according to the danger of an ascent), it would be absurd to pretend that these qualitative differences in his own labour would seem to him, or would be, reducible to quantitative.

In another passage where Marx expounds the alleged equivalence of lesser quantities of skilled to greater quantities of unskilled labour, there is an appeal to facts equally unsuccessful. He is offering what at first sight seems a more promising suggestion for determining the equivalence than the circular method, already examined, of inferring it from the prices of the products. 'All labour', he says, 'of a higher or more complicated character than average labour is expenditure of a labour-power of a more costly kind, labour-power whose production has cost more time and labour, and which therefore has a higher value than unskilled and simple labour-power. This power being of a higher value, its consumption

is labour of a higher class, labour that creates in equal times proportionately higher values than unskilled labour does.' ¹ Hence, 'in the creation of surplus-value it does not in the least matter, whether the labour appropriated by the capitalist be simple unskilled labour of average quality, or more complicated skilled labour'.

Now it is of course true that work which men can only be trained to perform by an expensive education is partly on that account more highly paid. If £3,000 must be spent from infancy before a child can be brought up and trained and qualified as a physician, while £500 is enough if he is only to be made a druggist, the physician cannot afford to charge as little for his services as the druggist can. But the relative cost in producing them is far from explaining the whole difference between the rates at which different kinds of labour are paid.² If it were sufficient, two things should follow. (1) Workmen not working for a capitalist, but selling their services (like nurses and surgeons) or their products (like portrait-painters, carpenters, and village shoe-makers), should sell these at prices which upon the whole would leave them equal gains or net profits. I pay more for a teak bench because the carpenter must pay out more for teak than for deal; but he makes the same net profit on either, except for any small percentage on money advanced for stock, and any difference in the time

¹ *Capital*, I, p. 179.

² Marx assimilates the education of the workman, as the cost of production of his labour, to the cost of implements, materials, and wages in the production of a commodity. But the finished workman may put his own price on his services; the finished commodity cannot; though the owner of it may sometimes put a price on it out of all relation to the cost of producing it.

required to work the two woods. So, if a workman sells me services which have cost more to produce than another's, his charge should include something towards covering the extra cost of his training, but after allowing for that, or when the training is all paid for, should be the same per hour as another workman's; so that, when they have been reimbursed the expenses of their 'production', they will be left with the same net income. (2) Labourers working for a capitalist, and exerting different kinds of labour more or less skilled, though they may receive different time-rates of wages, should equally, after repaying the cost of their training, be left with a mere subsistence wage. For the capitalist is supposed by Marx to annex all surplus-value, and to leave the labourer only what will buy the means of subsistence. If then the only reason why he pays a higher wage to *A* a skilled than to *B* an unskilled labourer is that *A*'s skill was an out-of-pocket expense like the purchase of teak, *A* should have nothing more left over after discharging the cost of his training than *B*. Or if they are not fully exploited, but retain part of the value of their surplus-labour, at the same rate of exploitation their incomings should be the same.

Now plainly neither of these things occurs. What should happen, if the different values of qualitatively different labours were due merely to the different amounts of average simple labour directly or indirectly devoted to producing them, does not happen. The various kinds of skilled labour then cannot be equated with homogeneous labour by taking into account the costs of production. Here again the facts fail to bear out Marx's appeal to them.

(iii) And further, his conception of homogeneous labour is vicious in principle. It confuses generic unity with commensurability in terms of a common unit. Though nothing, he says, has exchange-value without having value in use, yet in considering the exchange-values of commodities we put out of sight their specific differences as use-values ; and we find left in them only the common property of being products of labour. Concrete labour has, indeed, its specific differences, in virtue of which it produces articles with their several special uses. But if we have abstracted from the use-differences of the products, we must equally abstract from the differences whence they spring in the labour.¹ Hence there is nothing left, but what is common to all labours ; they are 'reduced to one and the same sort of labour, human labour in the abstract'.² A useful article has value 'only because human labour in the abstract has been embodied or materialized in it' ; and again, in words already quoted, 'the equalization of the most different kinds of labour can be the result only of an abstraction from their inequalities, or of reducing them to their common denomination, viz. expenditure of human labour-power or human labour in the abstract'.³

Now the distinction between concrete labour and labour in the abstract is the distinction between the specific diversities and the generic identity in different kinds of labour. To abstract from the first, and consider these labours as only human labour in the abstract, would be to ignore their differences, and to treat them, because all are labour, as alike and interchangeable.

¹ *Capital*, I, pp. 4, 5.

² *Ibid.*, p. 5.

³ *Ibid.*, p. 44 ; cf. *supra*, p. 88.

We may take an analogy. Every book is of some particular kind, in language, length, date, subject, and what not ; if, for the purpose of comparing my library with another man's, I abstract from these differences, and treat all the books barely as books in the abstract, the greater library will be simply the library with more books. So if, in reckoning the value of a commodity by the labour embodied in it, I abstract from the concrete diversities of labour, and treat all kinds as barely human labour in the abstract, I must estimate the values conferred in so many hours by the mere duration of the labour, without regard to its kind. They are all generically expenditure of human labour-power ; in so regarding them, I may be said to reduce them to a common denomination, as I reduce books of all kinds, in estimating the greatness of two libraries, to the common denomination of books. Two books may be unequal, in length, merit, cost, antiquity ; but if in order to equalize or reduce them to a common denomination I am to abstract from their inequalities, I shall count each merely as one book. And Marx says that we equalize labours of different kinds by abstracting from their differences. But what he means is an operation in which we do not abstract from the differences. The reduction of qualitatively different labours to a common denomination, in the sense in which he uses the expression, requires that we take account of their specific diversities. Equal or unit lengths of these different labours are reduced not to the common denomination of units of labour, to be which is their generic identity, but to the common denomination of a so-called average or homogeneous human labour,

which is by no means their generic identity, nor in any sense average labour, nor more homogeneous than any other specific labour, and of which, just *because* of their differences, they are said to contain different numbers of units. It is as if I were to reduce the books in two libraries to a common denomination not by counting each as one book, but by reckoning each as equivalent to a different number of copies of *Marmion*. And *Marmion* is certainly not their generic identity, and is no more abstract than the books reduced to terms of it. If I equate *Paradise Lost* to a thousand *Marmions*, and *Paradise Regained* to ten, I am not abstracting from their inequalities but taking account of them. So, if I reduce the several specific labours which different men exert in the same time to different lengths of some one kind of human labour, I have taken account of their specific differences. This labour is homogeneous in the sense that it is of one and the same kind throughout, so that different specific labours, by being reduced to terms of it, are made commensurable: not in the sense in which the various specific labours are homogeneous, that they belonged to one and the same genus, labour. The common genus, like every genus, is abstract, but they are not to be reduced to terms of this. The common unit, to terms of which they are to be reduced, is not abstract. The labour, in fact, in which Marx would reckon is the simple but specific labour of some wage-earner receiving, say, 10s. a day; it is no more abstract than the labour of a Royal Academician or a Lord Chancellor.

It is false to suppose that qualitative differences in the members of any genus can be expressed as quantita-

tive differences of the generic character. If colours differ qualitatively, I cannot state their differences as more or less of colour. If pleasures differ qualitatively, I cannot state theirs as more or less of pleasure. I may state the differences of colour as more or less amplitude of wave-length, or frequency of waves per second, in light; not meaning that these *are* the differences of colour, but that they somehow determine or are connected with them. It has been said that genius is an infinite capacity for taking pains; if it be, it is not meant that the genius of Napoleon *was* just a greater quantity of pains than the dull statesmanship of the King of Prussia, or the dull generalship of Wurmser; but that in virtue and consequence of taking greater pains he developed a genius qualitatively different alike from the mediocre qualities of the other two men and the pains taken by either them or him. So if labours of different kinds are to be reduced to terms of a common measure, to quantities of a homogeneous unit, that is only possible in the sense that we find something which is not labour at all—neither labour in general, i.e. the generic identity of labours of different kinds, nor labour of any one of these kinds, nor the average of them (as if there could be any average of different qualities): but something, various quantities of which are causally or at least regularly connected with the qualitative differences of the labours. It need scarcely be said that Marx has not shown how to effect this reduction. But merely by way of indicating the nature of the problem, we may look at what, if it were possible, would be such a reduction. Suppose that physiologists found that the exercise for equal times of

different kinds of labour were correlated with different quantities of secretion by the sweat glands, we might then be said in a sense to have reduced the qualitative differences of labours to quantitative differences in terms of a homogeneous unit. But our unit would not be labour at all; and only in an inaccurate sense could we be said to have effected such a reduction. For no kind of labour would be, contain, or be constituted by so much sweat secretion. Labours then of different kinds can in no accurate sense be different quantities of a common unit; nor is it easy to suggest, in the inaccurate sense just illustrated, a common unit in terms of which they can seriously be reckoned. Unless indeed—if the suspicion may be breathed—the common unit be the dollar or the pound sterling; for in spite of their differences they are comparable in respect of what men can get in money for exercising them. But such a reduction finds in their respective prices the basis of any quantitative relation between labours of different kinds; and Marx professes to find in the quantitative relations between the labours the basis of their respective prices.

V

THE INDIVIDUAL RELATIVITY OF VALUE

WE have found reason to think that the equation of qualitatively different labours, instead of being presupposed by the fixing of their respective prices, is effected through it. In that case there need be no common element in all commodities, for prices to measure, such as Marx conceived the homogeneous human labour embodied in them to be. Prices themselves are certainly not such ; and if being exchanged at certain definite quantities one against another, or, more commonly, being priced makes products into commodities, i.e. into things having exchange-values, no common element in them will be needed. Marx, however, argues otherwise.¹ Because I can equate in exchange any two commodities, there must, he thinks, be some common measure ; this cannot be money ; since exchange of commodities is possible without using money as a measure of their relations ; therefore it must be something the same in them all, and for this he falls back on labour. But there is an error in this argument of some general philosophic interest. It is assumed that no choice is possible between things so far as they are heterogeneous ; that if I prefer *a* to *b*, that can only be because *a* contains more of something the same in both.

This assumption is not peculiar to Marxian economics.

¹ *Capital*, I, p. 3.

We often meet it in ethical reflection. It has helped to persuade many that pleasures can be summed; and some, if they think that pleasure is not the only good, to extend this view beyond pleasures, and to say that all goods are commensurable.¹ How, it is asked, can you say that one thing pleases you more than another, when the pleasures differ in kind, unless the difference in kind is reducible to one of quantity? And similarly, how can you say that learning is better than riches, or giving pleasure better than getting it, unless because the one contains more of the same good than does the other? There is here *prima facie* a puzzle; but we must not refuse to acknowledge facts because at first sight they are puzzling. And it sometimes happens in philosophy that we are disposed at first sight to reject a fact, while it stands alone; but that, when we find others apparently with the same character, we see that our original attitude was based not on any inconceivability in the fact alleged, but only on its unfamiliarity. We have here an instance in point. Marx, looking only at economic exchange, thinks the goods exchanged must, as exchangeable, be homogeneous. But exchanging is only a case of preferring one thing to another, and a commodity may be preferred to, or rejected for, not only another commodity, but honour or love or comfort. Hence he really needs to show that there is something the same both in commodities and in all these; which certainly could not be labour. If it be said that, in the last analysis, we shall find involved a consideration how to get most of pleasure, or of some one homogeneous good, at least this homogeneous good

¹ e. g. Dr. H. Rashdall, *Theory of Good and Evil*.

will not be intrinsic to all commodities. To possess them may be a means to getting more of it; but the notion that their being preferred and postponed one to another requires something the same *in* them is a mere illusion.

In determining this wider problem, we may begin by considering choice between pleasures. It is urged that, unless the pleasures are homogeneous, and the difference one of quantity, we cannot say that we find, or expect to find, one thing pleasanter than another. But if I ask myself what I mean by saying that one is pleasanter than the other, I discover that I either mean that the pleasure given by one is intenser than that given by the other, or simply that I prefer it; and I may prefer it for some other reason than that it is of the same kind, but intenser. Those who question this, do so because they think there must be a ground for my preference; and so far they think truly. But their mistake is to think that there need be any other ground for preferring *a* to *b*, than that the one is *a* and the other *b*. Even when the alternatives are of the same kind, as when a man says that he prefers beef to mutton, it is enough that one tastes to him in one way, and the other in another way. Even in the sense of 'pleasure' in which it stands for a certain sort of feeling, to prefer one pleasure to another on the ground of liking it better does not mean to have or expect to have more of the same feeling, or the same feeling more intensely, by the one choice than by the other. Liking a pleasure is not just feeling the pleasure liked; and that a pleasure is better liked is not that it is felt to be greater. Men fall sometimes into the same sort of circular argument

here as we found that Marx fell into about the relation of price and value. Because they think that the preference of one pleasure *a* to another *b* must be based on the greater magnitude, or supposed greater magnitude, of *a*, they take the preference for *a* as evidence that it is found or thought greater; and then supposing it established, that *a* is found or thought greater, say that the facts support their assumed principle. But if any one challenges the principle, they have nothing to produce but the supposed evidence of instances, for which the allegation that they are instances of the greater pleasure being preferred is itself based on the principle challenged. They must produce some other evidence than the fact of the preference, to show that a pleasure preferred is a greater pleasure: evidence that would equally well determine the quantitative relation or estimate of the pleasures, though a man were to select the less. A man may no doubt at times prefer one pleasure to another because he finds or believes it to be greater; but he may also find or believe it greater, and reject it; or may prefer one to another not because one is greater and the other less, but because one is equable and the other violent, or one immediate and the other remote. And there is no more justification for reducing these differences to differences of quantity than for reducing a difference of quantity to one of equability or immediacy.

But choice is not always between pleasures; and even as between pleasures, we may prefer one not because, as we should say, we like it better, but because we think it better. Such language implies that the ground of our preferring *a* to *b* is the belief that it is *better* than *b*; at least in rational action, for we need not

here consider the problem whether a man can really choose what at the moment he believes to be worse. Now by those who believe in the 'commensurability of all values' it is said, that at least being in some measure good or bad is a common quality in all things that we choose or reject. But plausible as this sounds, it still seems true that, in judging one thing better than another, I need not and do not judge that it contains more of something the same. Those who say otherwise have never really explained how, on their view, I am to weigh up together the bad and the good that may be ingredients in each alternative before me. Supposing places were to be ranked according to their temperature, meaning by temperature what we feel, and not the reading of a thermometer, how am I to compare the equable climate of the Scilly Isles with the extremes of New York? So with the good and the bad elements in the alternatives between which a man has to choose. If good *were* a homogeneous quality, it would be a quality of the elements or parts; and bad would not be the same quality in lower degree, or a less amount of good; it would be a different and contrary quality, and no arithmetic would tell us what or how much bad cancels what or how much good. The alternatives must be considered and estimated in their completeness; if one is preferred, it is judged better as a whole; and even if the parts in one were of the same contrary qualities as were those in the other, the wholes will not therefore be qualitatively identical. We must still maintain that the ground for judging *a* better than *b* is that one is *a* and the other *b*.

Bearing these results in mind, let us look again at

the economic relation of exchange. What is the root fact at the bottom of exchange? Simply that each party at the moment, for whatever reason, prefers the thing offered to him to the thing that he has. So far, there is no question of a measure of value. Esau at the moment preferred a mess of pottage to his birthright; Jacob at the moment (and afterwards too) preferred Esau's birthright to the mess of pottage. And the immediate point is that the exchange depended on preferences which did not imply an identical something in the things exchanged. But did not Jacob drive a hard bargain, and was not the birthright worth more than the pottage? Certainly. At any rate before money is introduced as a 'measure of value', the equal worth of two commodities—of so much corn, say, to so much copper—means that they are of the precise quantities at which the preference becomes reciprocal. If the parties agree that 1 cwt. of wheat is of the same value as 28 lb. of copper, this means that though the owner of the wheat would no doubt prefer 28 lb. of copper to only 111 lb. of wheat, the owner of the copper would not prefer only 111 lb. of wheat to 28 lb. of copper; and though the owner of the copper would prefer 1 cwt. wheat to 27 lb. copper, the owner of the wheat would not prefer 27 lb. copper to 1 cwt. wheat. The quantities at which the exchange is effected are those at which each *just* prefers the other's commodity to his own. Hence it is important to the establishment of an equivalence in barter that things should be divisible, so that any fraction can be given and taken. But when, as in the case of Esau's birthright, one party prefers what he gets to what he gives far more than does the other, the

exchange is unequal ; and when a man takes advantage of another's temporary necessities to force an exchange of this kind, he drives a hard bargain.

Exchange then depends on mutual preference ; and equality in exchange, *so long as we consider a particular transaction in isolation*, on the fact that the quantities exchanged are those at which the preference just becomes mutual ; the importance of the proviso will appear later. It is not true that the equality means that both things contain the same quantity of a common something ; and we need not therefore seek for this something in homogeneous human labour. But it is remarkable that Marx should have considered the being products of labour to be the only common property left in exchangeable commodities, when abstraction has been made from the qualitative differences fitting them to serve different uses. For it is equally left, that they are of *some* use. Because the specific differences of labour are the source of specific uses, and specific uses must be disregarded, Marx abstracts from the specific differences of labour, and considers commodities barely as being products of labour in general. It would be simpler, and would equally disregard specific uses, to consider them barely as having use in general. Or perhaps it is better to say, as satisfying some want. And there is this about wants that makes them *prima facie* more likely than embodied labour to determine exchange-relations : that a valuation based on the embodied labour requires us to establish a quantitative relation between labours really heterogeneous ; but wants obtain what measuring they need from the preferences which bring about exchanges. And further, it is

not true that all things possessed of exchange-value are products of labour; if I pick up a precious stone, or a nugget of gold in the river, it has value, but no labour is embodied in it.¹ It is not my labour in picking it up and carrying it that makes it valuable, but men's want of such things. The wants which make things valuable may be foolish wants; the things which satisfy them may in a sense be quite useless, i.e. they may satisfy no real need, provide a man with nothing, the lack of which is any way injurious to him. Therefore it seems better to say that what has exchange-value must satisfy a want, than serve a use. But what is meant by having use-value is satisfying a want; and Marx admits that commodities must have use-value if they are to have exchange-value. Warming-pans have gone out of use; but if people will still buy them to hang idly on a wall, they retain a use in the economic sense. And if we look at the want felt for a thing, not at what a third party might judge to be the importance of the services that it will render, we shall see why exchanges sometimes take place which most persons pronounce foolish.

Marx throughout takes too little account of the influence of want, or of men's desires. He does indeed admit it, as when he says that unusual relations of supply and demand will make market-prices diverge from market-values, and indeed modify the relation between market-value and individual values. But he does not recognize its full play. Else he would not say that commodities, as exchange-values, contain not an atom of use-value.² We may abstract as much as we like from

¹ Cf. *supra*, p. 13.

² *Capital*, I, p. 4.

a consideration of the particular services that a warming-pan will render—whether it will warm a bed, or ornament a wall, or hypnotize the person who gazes on it ; but we cannot, if we are to explain its value, abstract from the fact that it is wanted, and has a usefulness which consists in satisfying a want. It is this usefulness that gives rise to surplus-value itself. Where nature was bountiful, and men felt no wants which they could not satisfy by scratching the ground, surplus-value would not be created. Some such conditions exist among the primitive inhabitants of some tropical lands. Only in relation to the wants of an interloper can the surplus produce which is not required to maintain the natives at their customary and simple standard of life have any value at all. Reformers of divers sorts have seen in wanting little an obstacle to progress. During the London dock strike of 1889 Mr. Ben Tillett, speaking at Oxford, insisted on the importance of nursing to maturity the men's infant discontent ; and the Montagu-Chelmsford ' Report on Indian Constitutional Reforms ' laments the pathetic contentment of the masses of the Indian peasantry. But to stimulate wants is to increase value, and produce all the economic complications connected with such increase. Even the peculiar position which Marx in his theory of value assigns to labour, as the source of all surplus-value, depends on want. Except in the most niggardly climes, such as Tierra del Fuego, men, especially when they organize their labour in society, can produce more than they need consume. This is what Marx means by saying that labour is a commodity possessing the specific use-value of ' being a source not only of value, but of more value than it

has itself'¹, or that 'the value of labour-power, and the value which that labour-power creates in the labour process, are two entirely different magnitudes'.² But if men did not want more than they need consume, labour would not have this use-value; for the extra produce, not being wanted, would be valueless. Marx, while admitting that nothing has value proper, which has no use-value, thought that he had discovered the real clue to the solution of economic problems in the proposition that value is solidified homogeneous labour-power; and his disciples have lauded him for it.³ In reality he was turning his eyes from the true light, and following a will-o'-the-wisp into bog and darkness.

The first fact then about exchange-relations—and the knowledge of it is as old as Aristotle⁴—is that they spring from reciprocal wants. If the commodities are both divisible, haggling about the quantities to be exchanged is possible; and when each party gets what he just prefers to what he gives, we may say that to them at any rate the exchange is one of equal values. This does not mean that neither gains, but that they gain equally. Where one or both things are indivisible, like a cow and a gun, exchange may still take place, if each prefers the other's commodity to his own; but there is no way of measuring the parties' wants, or determining whether to them the exchange is one of equal values. What makes things commensurable is that there is some one divisible and wanted thing, of which it can be ascertained how much men will give and

¹ *Capital*, I, p. 175.

² *Ibid.*, p. 174.

³ *Vide* Engels in the Preface to vol. II of *Capital*, p. 20.

⁴ *Nicomachean Ethics*, v. v. 11, 1133^a 26-8.

take in exchange for all the other heterogeneous objects of their wants. We call this thing money. No common element embodied in things, like homogeneous labour, gives them value, or makes them commensurable. Being wanted gives them value; and a common relation to money makes them commensurable.

All this is really familiar enough, though Marx would have it otherwise. But what we do not so easily realize is that, because value in commodities is not a definite amount of something the same, but springs from men's wants, and because the relative strengths of men's wants for the same things vary indescribably, therefore commensurability is never really attained. Money prices are a compromise, and conceal rather than remove the real unfixedness, the individual relativity, of value. This is best seen by considering a little more closely the course which exchange transactions might take without money. We remember that to any two persons the things which they exchange are of equal value when each gets that quantity of the other thing which he just prefers to what he gives. Let equal value in this sense be represented by the symbol $=$, greater value by $>$, less value by $<$; and suppose three persons, A , B , and C , to offer in exchange for what they want, bread, envelopes, and beer respectively. Suppose A and B just ready to barter bread and envelopes, when A offers B $\frac{1}{2}$ lb. of bread for a dozen envelopes; then for A and B , 1 lb. bread $=$ 24 envelopes. Similarly, for B and C , let 30 envelopes $=$ $\frac{1}{2}$ pint beer; and for C and A , let $\frac{1}{2}$ pint beer $=$ $\frac{1}{4}$ lb. bread. Such a situation is perfectly possible; indeed, if we look behind prices to the actual facts of men's reciprocal

wants, it is constantly occurring. Yet if we treat the values of these articles as something absolute, and take their value-relations from these men's wants, this result arises, that since 1 lb. bread = 24 envelopes, 30 envelopes > 1 lb. bread; since $\frac{1}{2}$ pint beer = $\frac{1}{4}$ lb. bread, 1 lb. bread > $1\frac{1}{2}$ pints beer; and since 30 envelopes = $\frac{1}{2}$ pint beer, $1\frac{1}{2}$ pints beer > 30 envelopes; and thus 30 envelopes > 30 envelopes. The introduction of money alters the appearance of the matter. The relative values, which attach to things in virtue of the wants determining a certain number of exchanges, may be sufficient to fix prices; and these prices then themselves regulate other exchanges. Thus if, on the basis of the want-relations between *A* and *B*, *B* and *C*, 1 lb. of bread be priced at 3*d.*, 24 envelopes at 3*d.*, and $\frac{1}{2}$ pint of beer at 4*d.*, *A* will give *C* $1\frac{1}{2}$ lb. of bread for his $\frac{1}{2}$ pint of beer. But if values arise from wants, and money is to be a measure of values, all want-relations are equally entitled to contribute to the regulation of prices.¹ Because this is impossible, money is no true measure. Fundamentally, with the facts supposed, there is no more reason for saying that 1 lb. of bread is of the same value as 24 envelopes than that it is of the same value as 2 pints of beer. But the money-prices make us think that 'really' 1 lb. of bread is worth only $\frac{1}{3}$ pint of beer. Had we started by fixing the prices on the basis of the want-relations of *B* and *C*, *C* and *A*, still pricing 24 envelopes at 3*d.*, we should

¹ And therefore among them the want-relation consisting in the fact that *A* and *C*, left to themselves, and unguided by prices otherwise fixed, would be equally content to exchange $\frac{1}{3}$ lb. bread for $\frac{1}{2}$ pint beer.

have priced 1 lb. of bread at 1s. 6d. ; and then the money-prices would have forced the exchange between *A* and *B* away from what the relation of their wants would make equal.

The bargainings which lead to the fixing of prices, so far as they are fixed, are of course far more numerous and intricate than in the above illustration; but whatever the figures, they are bound to favour some exchangers at the expense of others ; by conforming to what some in their transactions think equal, they are bound to force others into what with as much right may be called unequal. The fixing of prices by public authority cannot alter this, though in certain cases it may prevent the holders of stocks from taking advantage of others' necessities. For it is impossible to fix the prices of all commodities in such a way that every one, whatever he sells and buys for the same money, should get just so much of what he buys as would in bartering have seemed to him of equal value with what he sells. It is no wonder, therefore, that Marx should have sought escape from the shifting uncertainties of a value depending on the relations between men's wants in the definite and absolute quantities of value which his theory professes to find. If his theory were true, there would always exist some definite relation between the real values of any two things, however difficult it might be to discover. Unfortunately the theory is not true. Exchange-relations do not conform to it, and never did. To make them do so, if labour-time were taken strictly as the measure of value, would be so manifestly absurd and unjust, that for the actual duration of the real labour exerted he substitutes as measure the socially necessary

duration of a fictitious homogeneous labour never exerted. And what is socially necessary is found to depend on the very conditions from whose disturbing influence he is seeking to escape.

We must then be content to acknowledge that, because wants are individually relative, economic values are so also, and their estimation in fixed money-prices is an attempt to override the facts which, though well justified by the balance of convenience, cannot furnish a true objective measure of value. Men have sought by various devices to find a more satisfactory measure of values than money affords. Adam Smith pointed out that wheat is in some ways a better measure, over a long period, than silver or gold. Index-numbers remind us that things which have the same price on two dates have not necessarily the same value. But our trouble springs not from temporal fluctuations in the value of money as against all commodities alike; it springs from the fact that the value of money, measured in commodities, changes as we pass not only from one date to another but from one person to another. And hence index-numbers, on whatever basis they may be calculated, can never register correctly for all persons alike the temporal fluctuations in the purchasing power of money. For different people want to buy different things, or to buy the same things in different proportions; and the money-prices of these things fluctuate more or less independently. Suppose for purposes of simplicity that the index-number is based on three commodities only, bread, bacon, and sugar; that at the basis date bread cost 6*d.* per quartern, bacon 9*d.* per lb., sugar 4½*d.* per lb.; and that at the new date they

have risen to 1s., 2s. 3d., and 6d. respectively. Then bread has risen 100 per cent., bacon 200 per cent., sugar 33·3 per cent., and the average rise is 111·1 per cent. But for practical purposes we must consider not only the rate of rise on each commodity, but the relative amounts on which each rate acts ; and if 4 lb. bread, 1 lb. bacon, and 1 lb. sugar be allowed equal weight in determining the index-number, the total rise will be 116 per cent., and the new index-number will be 216, i.e. the same commodities will cost $\frac{216}{100}$ times what they cost before, and the purchasing power of £1 will be only $\frac{100}{216}$ or 46·29 per cent. of what it was. But the real change in the purchasing power of money to each person will depend upon his wants. If two men, *A* and *B*, at the basis date each had an income of £1 per week, and spent it as follows—

	s. d.		s. d.
A {	29½ quartern loaves bread . . . = 14 9	B {	34 quartern loaves bread . . . = 17 0
	6 lb. bacon . . = 4 6		3½ lb. bacon . . = 2 7½
	2 lb. sugar . . = 9		1 lb. sugar . . = 4½

and if at the new date they continue to buy the same quantities, *A* at the new prices would have to spend £2 4s. 0d., *B* only £2 2s. 4½d. ; and this means that the purchasing power of the pound sterling would for *A* have fallen to 45·45 per cent., but for *B* only to 47·19 per cent. of what it had previously been. No doubt people accommodate their purchases to some extent to the changes of price, curtailing them more in what has risen most ; but even when this has been done, the discrepancies between what might be called the private index-numbers of any two persons are doubtless often far greater than in the above illustration.

Commodities then have value not absolutely, but in relation to men's wants. A thing has value only *for* somebody. If it is valuable to *X* simply as satisfying his wants, that is its value to him in use ; if as enabling him to obtain from another who wants it what will satisfy his wants, that is its value to him in exchange. Exchange-values are expressed in money, and the quantities of money to be exchanged against so much of any other thing are more or less fixed at any one date ; that does not make value absolute ; it only subjects people to the hazard of unequal benefit from the figures at which prices are fixed, and the fluctuations that occur in them. And this is expressed when a man says of a commodity that it is not worth, or is more than worth, its price.

VI

THE ILLUSION OF ABSOLUTE VALUES

WE have seen that things have value because men want them ; this, and not the labour in them, is the fundamental fact ; and since different men want different things, and want the same things in different orders of preference, there is no absolute value. The illusion that there is arises from the expression of value-relations in money-prices, and the fixing of a single price for the various equal parts of the stock of any commodity in one market, under the influence of the competition of buyers and sellers. If we look a little more closely at the process by which not the real value but the purchasing power of things is fixed, we shall be in a better position to proceed to a question which we have hitherto not asked, viz. how the facts about value are related to considerations of justice and injustice.

It may be well to remind ourselves that, when want is said to generate value, something is meant by the word *want* which exists only when some one feels it. We say, indeed, that a field wants manure ; but that fact would confer no value on manure, unless some human being wanted the crops which could not be grown without it. Nor is the power of men's wants to generate value in the things wanted affected by other men's conviction that the things are not needed even by those who want them. Similarly, an article acquires no value from its power to satisfy men's needs—even those which

they want to satisfy—unless men are ready to satisfy them with that article. Horse-flesh may be as wholesome as you please, but where men have a prejudice which prevents them from eating it, it will have no more value dead than beef among Hindus; what degree of hunger will give it value is a psychological question, as value is a psychological product. The use-value and exchange-value which economists commonly distinguish are not really two species of one genus, not values in the same sense. There are really three facts, which we must not allow ourselves to confuse, in this connexion: (1) that a thing will produce certain effects, as bread nourishes, (2) that men want a thing, or regard the possession of it as important to them, (3) that they can get other things for it in exchange. Now the first is a mere physical fact, and though it may be the reason why men desire to possess a thing, or can get other things for it in exchange, it is a different fact from either; and when a thing's power to produce certain effects makes it valuable, that is because men desire the effects. As Marx says, 'a commodity is, in the first place, . . . a thing that by its properties satisfies human wants of some sort or another'.¹ Its properties may enable it to do this in two ways, either directly and immediately, as a fire warms us, or indirectly and mediately, as coal makes a fire. In the first case it may seem indifferent whether we say that a thing is valuable because of its specific quality, or because it satisfies a want; since the quality in question is precisely that in it which satisfies the want, we may say indifferently that the quality of the thing or the want

¹ *Capital*, I, p. 1.

of the thing gives it value. In the second case the want of something else gives value to the thing, but only by creating a want of it as means to the other ; so that men's feeling of want is again the fundamental fact. We speak perfectly rightly of a man's ' setting a value ' on a thing.

How then, in face of the infinite variety of the estimates which different men form of the relative importance to them of different things, do they ever come to suppose things to have an absolute, or ' real ' value ? The reasons seem to be partly economic, but partly also moral. We may consider the latter first.

If every exchange were the subject of an independent bargain, uninfluenced by the rest, not only might things of the same kind have different values in each exchange, but these subjective differences might also be reflected in different prices. Between sellers in an oriental bazaar and foreign tourists, business approximates to this condition. And arguments can be found in defence of it. I do a man no injury, it might be said, if I take from him what he values less, in exchange for what he values more ; and unless he values more what he gets in exchange, why does he make the exchange ? He is the best judge how much he cares for anything ; and things are valuable to any one only as he cares for them, so that money itself would be valueless to a man who wanted nothing that it could buy (as some tempters have found). Yet this pleading does not convince. We should probably urge against it, (1) that nearly all men have many wants, and though it must be left to them which satisfaction to prefer, and which to postpone (for few of us can gratify all our wants) yet great

inequalities in the extent to which men can satisfy their wants are *prima facie* bad ; especially in regard to the commonest necessities. But so long as the distribution of material goods is unequal and capricious, if every transaction were the subject of an independent bargain, and there were no fixed prices, those already best provided would be at a great advantage as against the needy. The immediate satisfaction of some wants is necessary to life, and a man might take advantage of this fact to exact from another in exchange for food more than any one would give who was not famishing, as Jacob treated Esau ; however relative and subjective value may be, we cannot deny that the sacrifice which one party makes in such a case is incomparably greater than the other's. Now in a just exchange there should, we think, be some equality of sacrifice as well as of gain ; each party should get what he just prefers, or at any rate prefers in about the same measure, to what he gives. Had Jacob been famishing too, and given up the food that seemed his chance of escaping starvation, the bargain might have been fair ; but not when he gave up what he would not miss. For the value of anything to a man is measured by the importance he assigns not to the want which he would satisfy with it, if he got or kept it, but to the want that must go unsatisfied for the lack of it. Thus a man in the desert, who would pay a high price for a glass of water, if he suddenly comes upon a gushing spring, though the first jugfull he draws would quench his thirst, would have lost nothing of value to him by spilling it ; for he has only to fill again, and his thirst will be quenched.¹

¹ Cf. Böhm-Bawerk, *Positive Theory of Capital*, Bk. III, ch. ii.

Men use their resources to the best advantage that they can, i.e. to satisfy first the wants they feel most urgently ; and if part of their resources be lost, it is the less urgent wants that will go unsatisfied. The value then to a man of a lost sovereign is not that of the thing in his estimation most important that he could have bought with it, e.g. his food for the week ; but of the thing he must forego because deprived of it, and this may, but need not, be the same. And so a cup of water where another can be had for the taking has no value, though the quenching of one's thirst has ; and the mess of pottage which Jacob gave Esau had no value to Jacob. The value which a thing derives not from the importance of the want which it is used to satisfy, but of that which would go unsatisfied without it, is called by economists its 'marginal value' ; and in a hard bargain the marginal values of the things exchanged are very different. Again (2) it might be said that very different principles are applicable in the barter or sale of some special and favourite thing, such as a picture or a rare book, and of what is being produced in bulk for the market. If a man wants the first, I may reasonably refuse to part with it, unless he offers a price that tempts me, whether money or some other thing ; and what I gave for it, or the time it took to paint or write, is not relevant. But when men make different things in bulk for the purpose of exchanging them, they look to get a return or reward for their labour ; and if each man's return for the contribution which he makes to the economic life of society were exposed to all the incalculable chances of bargains without any fixed prices, they would not willingly accept the system. Value is

after all, as Marx called it, a social fact. Supposing that every man in the main produced for himself, and that exchange was only an occasional incident, men would on the whole amass useful things in proportion to their skill and energy. If instead they adopt a system of division of labour, and exchange their products, they ought still to get by this system proportionately to their skill and energy. It is true that society has not been formed by the amalgamation of previously independent and self-sufficing producers. Men have no option but to live by a system of production for exchange. Even in a pastoral and nomad life, where gear is least, the members of a family divide their occupations. If one wanted to live independently of his fellows, he very likely could not do it at all, for lack of land to cultivate ; and if he had land, he would live very hardly. But though there is no option about living under it, a system is not just which enables some to take advantage of other's necessities, and, forcing all to take part in the social work of production and exchange, yet refuses to a portion such a return as they would have insisted on, had they been independent men invited to come voluntarily into the society. We must not look on men only as having their several wants, and exchanging goods from time to time in order to satisfy their wants the better ; they are producers as well, contributing to the common life of society, and deserving to get their shares of the things produced on terms as far as possible equal. Prices then, we think, *ought* to be uniform for the same article ; and so related for different articles as to reward men according to their social services.¹

¹ This rule will be scrutinized below, pp. 155 *seq.*

Thus we come to think of the value of a thing not as the marginal value which it has for a particular man at a particular moment, varying from man to man and from moment to moment ; but as the marginal value which it would have for a sort of normal man, a man normally equipped with resources for the satisfaction of his wants. And so a notion of what ought to be helps to create the illusion of an absolute value. No doubt, in different societies, according to their general level of wealth and circumstances, the same thing would rank very differently. Silver was nothing accounted of in Jerusalem in the days of King Solomon ; it is otherwise to-day in an Indian village. But in any community the value of a thing tends to be thought of as something definite and fixed, because it is considered in relation to what is conceived to be a proper standard of life in that community, not in its varying relation to the position of each member of it. And also, because unequal prices would involve for the same services a haphazard inequality of reward, we think that prices ought to be fixed, and then that the fixed price is a measure of a fixed value, which it is unjust to disregard. And this last supposition operates to keep prices to some extent fixed. They may vary from town to town, or even from shop to shop ; but not from customer to customer. No doubt this is partly a matter of more or less tacit understanding. There are trades, like that of the curio dealer, where it prevails very imperfectly ; and in some countries the custom is so ill-established that a shop will notify ' fixed prices ' in the window. But the point is that moral notions, or notions of what is just, as well as economic motives, have something to do with producing and

maintaining fixed prices, and thereby with generating the belief in absolute values of commodities.

This influence of a notion of what is fair or just is reinforced by considerations of economic convenience. To know what must be paid for things is a great assistance and encouragement to business. Within the limits of a single market, competition, though it will not keep prices steady, is bound to make them pretty uniform for the same article at the same time. Let us look at the process by which prices come to be fixed in a competitive market.¹ We shall see that it does not really establish absolute values.

Suppose, first, that there are several sellers and one buyer. The buyer will have in his mind some figure above which he is unable or unwilling to go, and this will be the upper limit to which the price can travel. The sellers will similarly have in mind figures below which they will not go, but not each the same figure; and the lower limit to which the price can travel will be the figure of the seller prepared to take the least. If his stock be all that the buyer wants, the price will fall between his figure (which he will not of course reveal so long as he hopes for a better price) and that of the seller whose *minimum* is next above his. Where exactly it will fall between these limits will depend on the bargaining skill of the parties. But if the buyer wants the whole stock on the market, unless he can divide his bargains, and close with the less exacting sellers before they know he is going to buy the rest, he will have to pay for all, if not his private *maximum*, at any rate the highest private *minimum* of any of the sellers of whom

¹ Cf. for pp. 124-8, Böhm-Bawerk, *Positive Theory of Capital*, Bk. IV, ch. iv.

he buys. For why should others, who were prepared to take less if necessary, do so when it is not necessary? The buyer has shown he will pay the higher figure, and they will make him pay it to them.

Similarly, where there are many buyers and only one seller, if the seller has no more to dispose of than the buyer wants who is prepared to bid the most, he will be able to get a price falling between this buyer's private *maximum* and that of the next highest bidder. But if the total demand does not exceed the stock offered, unless again each bargain can be kept uninfluenced by the rest, he will get no higher price than the lowest of the buyers' private *maxima*. For why should any other buyer give more, though he were otherwise prepared to do so, if he knows the seller would rather take this figure than not sell?

Where there is a number both of sellers and buyers, the matter is a little more complicated. We may take first the comparatively simple case where the whole of a limited stock, not readily to be supplemented, is offered at once in a single market. Suppose that engineers are bidding for copper for immediate delivery. They will have entered into various contracts which they cannot fulfil without supplies; the dates and magnitudes of these will differ. So will the amount of their ready money and reserves, and many other details. The producers also will be in very different positions. They will not all have produced equally cheaply. They will not all have equally urgent need of cash. They will have different views of the probable course of trade in the immediate future. Let us imagine for purposes of illustration that there are four producing firms and six

engineering firms in the market. They may be symbolized respectively by P_{1-4} and E_{1-6} .

Now suppose the figures which in their own minds the producers have fixed as their *minima*, and the engineers as their *maxima*, to be as follows :

	£		£
P_1 . . .	60 per ton	E_1 . . .	55 per ton
P_2 . . .	65 „	E_2 . . .	60 „
P_3 . . .	75 „	E_3 . . .	63 „
P_4 . . .	80 „	E_4 . . .	70 „
		E_5 . . .	78 „
		E_6 . . .	85 „

Let the quality be supposed the same, and any engineer ready to take the whole stock offered, if he can get it within his figure. Of course any producer would take more money than his *minimum*, and any engineer give less than his *maximum*, if possible.

It is clear that in this situation E_1 will not buy ; for no one will sell as low as £55. The alternative may be serious, but if he cannot give the price asked without equally serious results, why should he give it ? E_2 would willingly make a bargain with P_1 , but since there are buyers ready to pay more than £60, P_1 will not take his offer ; nor will any offer lower than £80 be taken, and the price will fall somewhere between the limits fixed by the private *minimum* of P_4 , the most exacting seller, and the private *maximum* of E_6 . But if no engineer wants the whole stock, the course of things will be different. Suppose for simplicity that each engineer wants a ton, and each producer has a ton to sell. E_1 will still fail to do business. E_2 would buy at £60, but

there are others ready to give more, and P_1 will wait. When the bids advanced to £70, there would be 2 tons for sale, and 3 tons wanted (a ton each by E_4 , E_5 , and E_6); hence the price would still rise. But at £78 only 2 tons would be bought, and 3 offered, so that the sellers would begin to underbid; and the price will finally be settled between £70, at which figure there are more buyers than sellers, and £75, at which there are more sellers than buyers; say £72.

In this result one or two things are to be noticed. Firstly, the single price, while more favourable to both buyers and sellers than their respective *maxima* and *minima*, is so in unequal degrees; and these unequal advantages accrue to them by the accidents of the market: because other sellers ask more, other buyers offer less, none wants the whole stock, and so forth. Economists have compared such unequal advantages arising to buyers and sellers by the fixing of a single price with the unequal advantages that arise for the owners of more or less fertile land out of the fixing of a single price of corn; the owners of the more fertile land are thereby enabled to charge higher rents (and similarly the owners of more valuable building sites): not because of any greater services rendered by them, but because of the general situation, and the relation existing at the time between consumer's needs and the supply of land. So the producers and users of copper get more or give less than the value which they put on the metal themselves, not because of any greater services rendered by or to them, but because of the general situation, and the relation existing at the time between users' and producers' economic needs and

resources. The advantage is equally 'unearned' in both cases; and this advantage which arises to buyers or sellers from the difference between their private figures and the single price has been called a *quasi-rent*.

Secondly, in consequence of the single price being fixed at £72, E_2 and P_1 do no business, though they would each be glad to do it at £60; nor E_6 and P_4 , though they could agree at some figure from £80 to £85. It may be as important to them to buy or sell, as to those who succeed in doing so. The single price, which to those who do satisfy their wants brings unequal surpluses of satisfaction, denies to others any satisfaction of their wants at all.

From the comparatively simple suppositions of the case just taken we may pass to the greater complications of ordinary commerce and trade. We should find that the results which have emerged from consideration of the simplified case are not in principle affected. The supply of nearly all commodities is in some degree elastic, i.e. it can be increased if sufficient inducement be offered, whether in the way of higher price or a larger sale. So also with the demand; it can generally be increased, if the cost of satisfying it be sufficiently reduced. Suppose that at 1s. per lb. there would be a demand for half a million tons of sugar a year in Great Britain; if the price were lowered there would doubtless be a demand for more. Up to a point a reduction of price might lead to a more than proportionate increase of consumption: so that at 6d. per lb. over a million tons could be sold. A further reduction might be followed by a slackening in the increase of demand, and at 3d. per lb. the consumption might be found to be under two million tons.

What increase of consumption or demand will accompany what decrease of price or increase of supply : what decrease of consumption or demand will accompany what increase of price or decrease of supply—this will depend on innumerable circumstances in every case, and though curves can be plotted to show what has happened after the event, and for certain staple commodities these may hold good over considerable periods, yet no fixed law can be given. It is to be noted also that the connexion of fluctuations in supply and demand with fluctuations in price works mutually, and differently for different commodities. Where the quantity of a commodity is now greater and now less with the same effort of production, as happens with the fruits of the earth, an increase or decrease of supply may come first, and lead either to such lowering of price as will create a demand for the whole stock, or so much raising of it as will not prevent the whole stock being carried off. In other cases an increase of demand by raising the price may stimulate producers to increase the supply, or a decrease of demand by lowering the price may lead them to curtail the supply. Or, again, producers, confident that lower prices will powerfully stimulate demand, and satisfied that larger sales will more than recoup them for lower prices, may begin by reducing prices. A condition of equilibrium may be said to be attained when the price of a commodity is such that neither by reducing it nor by increasing it would the profits of the parties concerned be increased, though the quantities sold might be modified ; but it is of course very difficult to know, except by the method of trial and error, what that price is, and though divergences from it on either side are

constantly leading to restrictions or extensions in the production or the use of a commodity, which will bring the price nearer to the point of equilibrium, the result of these activities is often to cause it to swing to the other side, and there is a sort of see-saw about the point. And producers and manufacturing consumers of commodities are guided in their actions by their estimate of the effect which modifications of supply or demand and of price will have one on the other. In the copper market, for example, producing and engineering firms would not normally consider only a definite quantity of ready copper, in quoting prices; though this supposition was made, for the purpose of simplification, in the case imagined above. Offering or bidding for so much at a time, they would increase their output or diminish their orders respectively when the price resulting from the competition of sellers and buyers was high, and diminish their output or increase their orders when it was low. This applies also to the fruits of the earth and live-stock, with this difference, that whereas the output of copper can be regulated independently of seasons, and the stock held without perishing, the regulation of the output of crops or live-stock is a long-period affair, so that adjustment must have regard to what the demand is expected to be some time hence, and stocks cannot be held in hand without destruction or deterioration or expense.

Nevertheless, though the factors that determine prices have all this complexity, it still remains true that the price fixed advantages different buyers or sellers unequally. Some sellers would willingly have sold cheaper, and some buyers have bought dearer. It also

remains true that the point at which it is fixed may exclude some buyers and sellers altogether, whose subjective valuations are below or above it, although there were buyers at the price fixed who would have been willing to give the *minimum* of the excluded sellers, and sellers who would have been willing to take the *maximum* of the excluded buyers.

Would it not then be better not to use fixed prices, but to let those buyers and sellers of any commodity strike a bargain, each pair at their several price, whose subjective estimates of the value of the commodity in money and of money in the commodity agree most closely? For then more persons will satisfy their wants, and the unearned surpluses of satisfaction will be less unequal. Such a proposal is, however, unworkable. It would require that men should reveal honestly their money estimates of the urgency of their wants, or of the value to them of this or that article. This they *could not* always do; for till they know at what price they will get or sell one thing, they do not know what they can afford to give or take for another; and supposing they stated all the contingent alternatives, who is to decide which problem shall be settled first? A farmer could afford to sell his wheat cheaper if he got a better price for his straw, and vice versa. Is he to wait till the bargains in straw have been concluded before settling what to take from the corn-dealer, or vice versa? But supposing they *could* state definitely their several private estimates, how are they to be compelled to do so? They may be compelled to give a figure, but not the true figure. A producer whom it would just pay to sell his copper at £60, if he put his figure at £70 might

still succeed in being paired off with a buyer. Men then when selling would be sure to state a higher figure than the lowest at which it would be worth their while to deal, and a lower than the highest when buying ; if they were allowed to amend these figures, the bidding out of which a single price emerges would begin again ; if they were not, the results would be worse than before. For the single price, though making the gains of those who exchange very unequal according to their own subjective valuations, still is fixed on a definite principle, by a process in which the bids do represent some real estimate by the bidders of the urgency of their wants. But on the alternative method the results would be quite haphazard, depending on the extent to which men falsified their real estimates, and the chance of their doing so in appropriately corresponding ways.

It is not necessary to enter upon a closer consideration of the ' higgling of the market ', and the many differences of detail in the way in which it works for different commodities. The details are different for wholesale and retail markets, and, among wholesale, different where there is one world-market for a commodity like wheat or cotton, and where there are divers restricted markets for a commodity like fresh meat or milk, or, in a less degree, coal. But variations in detail do not affect this broad principle, that in a single market there will be one price for the same commodity, and that this will afford very unequal advantages and disadvantages to different persons doing or failing to do business at that price. There are no doubt many means by which a skilful buyer or seller may make a bargain at a lower or higher price than his rivals ; but this will be either

because the market is not completely unified, or for some personal reason—old-standing business connexion, hope of future business, or less creditable inducements. Still the market quotation will be the ruling figure.

And this figure comes to seem to express the 'real value' of the commodity for the time being. It has been called the 'objective' exchange-value¹, in distinction from the widely different figures which express the subjective valuations of different buyers and sellers. But it is really no more than a necessary practical device or compromise between different modes of satisfying men's wants. It fluctuates with the fluctuations in these wants, and has nothing absolute about it.

There is, however, one condition under which the market-price might seem to have a special claim to express a real value, viz. when it accords with what Marx calls the price of production, and Ricardo the price or cost of production; Adam Smith called it the natural price. This is the price which, while covering the cost of plant and material, and of labour at its normal rate of remuneration, leaves for the capitalist or 'undertaker' a normal rate of profit. Under the influence of competition prices tend to this level; and, as excluding anywhere abnormal gains, prices of production might appear peculiarly fair, and even peculiarly near the real value. For the abnormal, whether above or below the common wage or price, is easily taken, by men who think the familiar right, to be more or less than the labour or the article is really worth.

But there is no reason to assume that normal rates of

¹ Böhm-Bawerk, *Positive Theory of Capital*, Bk. III, ch. i.

wage or interest or profit correspond to a 'real' value in the services for which they are paid: whether these services be rendered by labourers, undertakers, or lenders of capital. Marx would deny that the last made any contribution to the creation of value. But if we look only at labourers, and at undertakers who really do work of management, we have still plenty of problems. If prices of production afforded them wage or pay in fixed proportion to the *amount* of their work, we might be so impressed by the uniformity as to conclude that the values of their services really were equal for equal times. But this they do not do. The wages which they cover are wages at the several rates of expectation of different kinds of workmen; the profits are at the rates of expectation prevailing in different kinds of business. And until it can be shown what rate of wage or profit accords with the real value of these several sorts of work or service, there is no ground for saying that prices of production, or natural prices, express the real worth of things.

Whatever we think about the absolute worth of every human being, we have to admit that in the economic sense of the words *worth* and *value*, the worth or value of a man's labour is derived, like that of a commodity, from men's wants. If men did not want to hear opera more than to read mathematics, Caruso would not have made a greater fortune than Einstein; though the work of mathematicians in the long run may lead to the satisfaction of men's wants in far greater measure. Absinthe may be as deleterious as the French Government believes; but so long as men like to drink it, and can, the labour of those who make it has an economic

value. To-day the labour of the vine-dressers of France has value ; but if the world effectively went dry, it would have it no longer. What makes us think that the value of commodities is imparted to them by the labour required for their production, and not the value of the labour derived from the importance men attach to the possession of the commodities, is that the commodities wanted cannot be had unless the labour is paid for. Various causes tend to fix rates of wage or salary at figures below which it is difficult to get men to work ; and these figures then seem to express a value in the labour independent of the want felt for its product. But a complete cessation of demand for the product would soon show that the labour had no intrinsic value of this or any amount. This is not to say that the labourer has none, even economically, for he is able to turn to work productive of goods that *are* wanted, or to substitute for services no longer in demand others that are : as many coachmen, when they found that the motor-car destroyed the value of their old form of service, learnt to be chauffeurs instead. Still less is it to say that in a non-economic sense the labourer has no value : that he is not a being whose existence adds an element of good to the world he lives in, and for whose support therefore we ought to endeavour to make our economic arrangements provide. But this kind of worth is not what Marx or the argument is concerned about.

A further circumstance which encourages the error that value is intrinsic in labour, and not derived from the wants felt for its products or services, is that certain kinds of skill command a high price, and the price of the products or services seems high because of the

exceptional value of the skill required. But it is plain that in a perfectly healthy community the skill of the physician would lose all value ; and that if an ingenious American could produce cheap standardized automatic surgical instruments which a child could learn to operate, surgeons' fees would drop heavily. What gives to skill in some of its forms so high a value is the scarcity of it. In this it is like diamonds or very eligible building sites. But its value is no more intrinsic than theirs ; both spring from men's wants.

There are rates of pay, and of profit also¹, so low that men are physically unable to support themselves at them. There are other rates, higher than these, at which men will no longer be content to work when they can get better rates. Above these again are rates, differing in different trades and employments, at which for considerable periods together men have been content to work. When there are such customary rates, they offer considerable resistance to the forces working to upset them. These forces, which also helped originally to settle them, are two : competition, and scarcity. The play of competition in the fixing of market-prices has place only because supplies are not unlimited, and it could not work without a measure of scarcity. Instead of scarcity, many people speak of monopoly. But monopoly is the concentration in the hands of one authority of the power to control the degree of scarcity which some service or commodity shall have in the

¹ Profit here means profit of management, not the profit of the sleeping partner who only lends capital ; though it is true that there are rates of profit here also, varying with the risks involved, below which men will not be tempted to save their money for productive enterprises.

market (not in actual existence) ; the authority may be one man or one association. That is the proper sense of the word ; and monopoly in this sense rarely occurs. It is misleading, for example, to speak of a land monopoly. There are thousands of owners, great and small, though in a particular village one man may have a local monopoly ; and the competition of owners to let or sell generally prevents any real monopoly prices or rents. What is peculiar about land is the impossibility of increasing either the total supply, or the supply in a particular place ; but devices like sky-scrapers, which make it possible to increase the accommodation on the same site, have the same sort of effect as increasing supply. The word 'monopoly' has invidious associations which the word 'scarcity' lacks ; and these may help to encourage its use. But in the interests of clearness of thought it is better to speak of scarcity. For scarcity-value is very wide-spread ; and the scarcity more or less local or temporary, of different materials, different kinds of skill, and (when men cannot or will not wait) different finished products is the great influence in opposing the levelling influence of free competition.

Scarcity and want both vary indefinitely in degree, and there is no formula for predicting the effect of their interplay in determining the value men will attach to a particular thing from time to time. But when the scarcity can be removed by labour, the commodity must still retain a value high enough to remunerate the labour (in spite of occasional disturbances) not below a certain rate. A sudden glut of perishable fruit may force the growers to let people have it for the gathering ; but if this were constant, they would go out of business, until

so few were left that the new scarcity of fruit restored value to it. Upon the average of sales, the price must remunerate all concerned in the production. It is here that the influence of customary and expected rates tells, and enters into the fixing of prices of production. These customary rates, however, are themselves largely dependent on relative scarcity of this or that sort of skill. This is a fact of just the same influence economically as the so-called land-monopoly, though the causes of it are different. It is often maintained artificially, as by the rigid guarding of trade secrets, or the limitation of apprenticeship ; sometimes, with less reference to one special form of skill, by opposing immigration into a country or district ; or, since economic scarcity is a question of the supply not in existence but on the market, by combination among workmen.

These methods of maintaining or raising the price to be got for their work, either by labourers generally or by a particular class of labourers, may or may not be more justifiable than the methods employed by the owners of material things to maintain or raise the price of them. The point is that economically they are of the same nature ; and that neither methods would work, if it were not that men's wants induce them to give something in exchange for what they want. We come back to our old position, that without men's wants there would not be exchange-value in anything, though there may be occasionally without labour ; that these values are not fixed, but fluctuate with men's wants and the shifting provision for the supply of them ; and that labours get a value economically to the extent that men's wants cannot be satisfied without them. In

a general system of production for exchange, wants are as it were pooled, so that the relative degrees of the wants of a particular two men for each other's particular products no longer determine the value-relations of those products, but a common measure is sought in money for the total social want of the total or social stock of each commodity. But this does not prevent their different wants making a thing of unequal value to different people at the same price ; so that they reap unequal surpluses of satisfaction through this social pooling. That reciprocal wants operate in a society where labour can for the most part adjust supply to demand profoundly modifies the influence which these wants would otherwise have in producing values ; so that the exchange-values of various commodities do come to exhibit some correspondence, constantly however disturbed, to the amounts of labour required for their production. But these labours are of all kinds, and remunerated at various rates ; and these rates express no original and intrinsic value in the labours, but depend, like the values of material goods, on wants and on the same accidental factors of scarcity and demand.

The connexion of one man's labour or sacrifice with the satisfaction of another's want has been thought analogous to the connexion between the supply of a commodity, which labour produces, and the demand which the commodity satisfies ; so that certain writers have spoken of an equilibrium between sacrifices and satisfactions or between desire and effort¹, as well as between supply and demand. And if there were such

¹ E.g. Marshall, *Principles of Economics*, Bk. V, ch. ii, § 1 (4th ed., p. 408).

an equilibrium, it might seem indifferent to say that exchange-value springs from the fact of a want to be satisfied or of a sacrifice balancing the satisfaction.¹ And from the second it is not a long step, though a false one, to saying that it springs from labour. The step is a false one, because to labour is not the only sacrifice which men can make, or which the satisfaction of a want requires, and under congenial conditions to labour is not necessarily a sacrifice at all, but is itself the satisfaction of a want.² But much productive labour is unfortunately not exerted under congenial conditions, and much, even when it is, is exerted by men who would rather be working at something else; and very little which has exchange-value has been produced without human labour, though its value may be out of all proportion to the amount of that labour. Now and then, as we have seen, something will command a price, on which no human labour has been spent, like a rare and beautiful shell; but such cases are relatively so few as to be generally overlooked, though for the understanding of the problem not less important because they are few. For the most part there is no satisfaction of a man's wants without effort or sacrifice on the part both of himself and of others. And since exchange-

¹ There need be no constant proportion between the strengths of different wants and the degrees of satisfaction felt when they are supplied. But it is rather the degree of satisfaction anticipated than that finally realized which determines what sacrifice shall be made to supply a want; and if that realized prove less than what was anticipated, less sacrifice would be made another time. The disproportion, therefore, may be ignored in a general view.

² Men want to *do*, as well as to *get*. The philosophical importance of this fact is well insisted on by John Grote, in his *Treatise on the Moral Ideals*; he calls the want to do things 'acturience'.

value, Janus-like, has this general connexion with sacrifice as well as with satisfaction, and since supply requires the sacrifice involved in the labour of production, and the fulfilment of demand is the satisfaction of want, and since the price which measures exchange-value is allowed by economists to be fixed by the interplay of supply and demand, why should we not equally regard it as fixed by the interplay of sacrifice and satisfaction? And if we may, then, as they speak of an equilibrium between demand and supply at a certain price, so may we not speak of an equilibrium between supply and satisfaction? And as it cannot be said that, in reaching the one equilibrium, demand has played a larger part than supply, or vice versa, so may we not urge that, in reaching the other, satisfaction has not played a larger part than sacrifice, or vice versa? And then will it not seem that we may speak indifferently of the part played by the satisfaction of want (or by want) and of the part played by sacrifice, in determining prices or the exchange-values expressed thereby? And if we look to no sacrifice but that of labouring, may we not as well say that labour gives things exchange-value, as that men's wants, or the powers in things to satisfy men's wants, give it? will not one statement be as true as the other, so that we may take whichever we please? 'This specious reasoning is nevertheless false'.¹

Though there is a general association of value with effort or sacrifice, nevertheless in the creation of value want and scarcity are the fundamental factors. From them sacrifice and effort spring. Whether it be your

¹ See Hobbes, *Leviathan*, ch. xv.

sacrifice in surrendering to another, in exchange for what you want and have not got, something of yours which he wants, that is only a sacrifice because you too want it, and because there is some scarcity, since both want the same thing. Or whether it be another's labour and effort in producing what will supply your want, these are exerted because the product is wanted, and are necessary because the product is in a measure scarce, inasmuch as labour and effort are needed to increase the stock.

Still, though want and scarcity are fundamental, if there were always a sacrifice that balanced them, it might be urged that there is the same relation of value to both. It is, therefore, to be noted that in the last paragraph two sacrifices were distinguished—that made by him who wants, in order to get what will satisfy his want, and that made by another, in order to produce it. Now with regard to the first we may say that there is a sense in which sacrifice is just the other side of the medal to want. So far as the same person is concerned it makes no difference whether I measure the value to him of the things he buys by the degree in which he wants them, or by the degree of sacrifice he would make to get them. The degree of sacrifice he would make may however be higher than that of the sacrifice he has to make ; but here again the value to him of what he must part with may be as well measured by the degree of sacrifice made in parting with, or by the degree of his want of, what he parts with. To part with what is valued is to recreate the want, for satisfying which it is counted valuable ; while a man had it, the want was as it were quenched ; when he surrenders it the want

is relit. But though for the same person the degree of sacrifice in surrendering a thing be the measure of the intensity of his want of it, or the degree of his want of it the measure of his sacrifice in surrendering it, there is no such necessary correlation between the degree of his want of what he gets in exchange and the degree of his sacrifice in giving what he gives ; and still less between the degree of sacrifice which one man makes in parting with a thing, and the intensity of the want which another satisfies in obtaining it. Consider the relation between the degree in which a man wants what he gets, when he makes an exchange, and the degree of the sacrifice made by him to get it ; it is clear that in retail purchases he need not think, when buying what he wants, what sacrifice he makes by spending the money with which he might else have satisfied some other want ; men do not always spend their money with a close eye to marginal satisfactions. And in the more carefully weighed wholesale transactions of big business, one party would generally have been prepared to take less or pay more than the price agreed on. This is but saying again that values are not absolute. Since there would be no exchange-values unless the things exchanged were wanted, in some measure or for some reason, by both parties, and since to surrender what one wants is sacrifice, sacrifice and satisfaction both exist for both parties, and are both inseparable from value. But the satisfaction gained by either party in what he gets, and the sacrifice made by that party in what he gives, need have no fixed relation ; only the sacrifice he would make in surrendering what he gets and the satisfaction he gains in getting it, the sacrifice he makes in surrendering

what he gives, and the satisfaction he would gain in retaining it, have such a fixed relation and can be regarded as opposite sides of the same fact ; and even here the satisfaction of want is the prior conception ; there would be no sacrifice if the thing satisfied no want.

And between the satisfaction which one party gets in securing what he wants, and the sacrifice which another party makes in producing or providing it, the alleged correlation hardly exists at all. Yet it is this which would be analogous to the correlation of supply and demand, for the demand is on one side of the exchange and the supply on the other. Only where an exchange is equal, in the sense already given to equal exchange, viz. that each party only just prefers what he gets to what he gives, could we say that there is this last sort of correlation. And even here we cannot speak intelligibly of an *equilibrium* between sacrifice and satisfaction, as we can of an equilibrium between supply and demand. This is said to be reached (when it is reached) at a price above or below which neither producers nor consumers are led to force a commodity by the temptation of larger profits. Let us allow that economic action is influenced by other motives at times than hope of profit : by rivalry, custom, public spirit, a sense of justice, or sentimental desire to retain an old connexion. These are, or determine, wants whose fulfilment will bring satisfaction ; and therefore it may be well to say that the equilibrium of supply and demand is reached at a price, above or below which neither party is led to force a commodity by the temptation of *more satisfaction*, rather than of *larger profits*. And so far as to obtain satisfaction is to avoid sacrifice, we

might say, by a prospect of *less sacrifice*. But *this* sacrifice is only the other side of the satisfaction ; it is the sacrifice which failure of satisfaction would involve for the same person. There is always this correlation, as we have seen, between sacrifice and the satisfaction foregone, between satisfaction and the sacrifice avoided ; but it is not equilibrium. The equilibrium of supply and demand is between supply from one side and demand from the other ; the equilibrium spoken of between sacrifices and satisfactions is supposed to be between the sacrifices made by those who supply and the satisfactions gained by those who effectively demand. Now the equilibrium of supply and demand is a relation between quantities of the same thing offered and wanted, when these quantities are equal, and the economic forces on either side do not work to disturb the equality. There seems no corresponding sense in which we can speak of an equilibrium between sacrifices on one side and satisfactions on the other ; these are not connected with equal quantities of the same thing. Even in an equal exchange, when each party only just prefers what he gets to what he gives, though there were said to be equilibrium, it would be in a different sense ; for there the relation is between the satisfactions on the two sides, or between the sacrifices, not between satisfactions on one side and sacrifices on the other. And supposing the equilibrium in an equal exchange were *per impossibile* between satisfaction on one side and sacrifice on the other, such equilibrium could only be said to exist in single exchanges independently. But the price at which supply and demand are in equilibrium regulates a multitude of exchanges ; and it is impossible to tell, and

meaningless to ask, whether in the aggregate of all these exchanges the satisfactions on the side of effective demand and the sacrifices on the side of supply balance or are equal.

Finally, even if this were not impossible, it would not be true that sacrifice is the same thing as labour; and to show the dependence of exchange-value on sacrifice would not be to show its dependence on labour. The sacrifice which a man makes in parting with a thing depends not on the labour which he puts into making it, but on the degree in which he wants it; and it is the magnitude of that sacrifice which puts up the price against a buyer. To labour no doubt is commonly a kind, though not the only kind, of sacrifice; even so, it would confer no value on the product, did not others want the product, and the labourer want something else, or want at least to desist from labour.¹

¹ It has been assumed in the foregoing argument that in all exchange there are both sacrifice and satisfaction on both sides. But is this necessary? If a millionaire makes no sacrifice when he gives half-a-crown to a beggar, does he make any when he pays it for a cigar? And if I sell to a collector a print which I had been about to throw away, do I make any sacrifice?

So far as men want more than they possess, the answer is yes. In the instance of the print, though, so long as I thought it valueless, I did not want it, and should have made no sacrifice in parting with it, yet if I wanted more than I possessed, I wanted money, which gives power to satisfy wants for other things; therefore the discovery that money could be had for the print created a want of it. It thus became a sacrifice to part with what I now knew would help to secure for me some satisfaction of my wants; though I had contemplated no sacrifice in throwing it away, so long as I did not think I could get anything for it.

But does a man necessarily and always want more than he possesses? There are men in whom the desire for wealth is not limitless. Aristotle, in a passage of the *Politics* which, whatever

economists may say of its economics, shows profound insight into the moral issues which touch economics, teaches that wealth has a natural limit ; it is a sufficiency, or full quantity, of instruments for use in household and state (ὀργάνων πλῆθος οἰκονομικῶν καὶ πολιτικῶν, *Pol.* 1. viii. 15, 1256^b 36). But he admits also that men conceive an unlimited desire for what they call wealth, i.e. not for the instruments which they require for use in household or state, living the kind of life which is best worth living, but for money, which will buy those instruments, but to the pursuit of which, considered in itself and not in relation to the cost of the wealth just defined, there is no natural limit.

There is a sense in which every man is insatiate ; of what he thinks absolutely good there is no measure which is too much. And if he thinks this good to consist in the things which money will buy, and so (for their sake) in money, there will be no limit to his desire for money. He may then be said, however much he has, to make some sacrifice in parting with any of it.

Yet the sacrifice may be inappreciable. And if a rich man does not think his good to lie in limitless possessing, he will make no sacrifice in parting with his superfluity, except so far as by using money to help one cause he *pro tanto* reduces his power of helping others. This, too, is some sacrifice, but may also be inappreciable ; and in questions of practice what is inappreciable must be treated as *nil*. We may say then that there is not, in every exchange, sacrifice as well as satisfaction on both sides. But the connexion of exchange-value with sacrifice is not therefore abolished. For if not to the man who surrenders it, yet to the man who receives it what is surrendered has value ; else he would give nothing for it ; and so he at least would make a sacrifice in parting with it. That a thing should be such as men would for the most part make a sacrifice in surrendering, as for the most part they would want it, is enough for it to have exchange-value. The exceptional cases would be but extreme or limiting instances of the individual relativity of value, in which the thing is so related to the person that for him the value of it disappears.

VII

SOME MORALS AND A CONCLUSION

WE have been endeavouring in the preceding chapters to discover what is, not what ought to be. We saw, indeed, that Marx, thinking that the labour in things is what gives them value, drew the conclusion that the labourer who thus imparts to things some definite amount of value *ought* to receive things embodying the same amount of it in return. Our investigation has been directed to show that the value in things, in virtue of which men will give other things for them in exchange, does not arise primarily from the labour in them, and cannot be measured by the amount of it; and that labour itself is only a source of value in things because the things are wanted. The exchange-relations of things do not and never did accord with the relative amounts of labour that have gone to their production. Marx's law of value is then at variance with the facts; and it is vitiated also by certain fundamental confusions in the conception of it.

Labour itself, we found, only had value for the same reason as commodities, viz. because it is wanted, whether for its direct services or as necessary to the production of commodities. And the amount of its value, or what it can command in exchange, fluctuates under the same conditions as the price of commodities. Men incapable of any work for which there is a demand can get no wage, however sometimes motives not economic

may induce us to give money to street-singers or pavement artists. Skilled labour is more valuable because it is scarcer than unskilled; and the competing valuations which labourers place on what is offered for their labour, and employers on the labour offered, produce more or less uniform rates of wages for the same kind of labour at the same place and time, just as similar influences produce single prices for commodities of one kind in one market. Combination again will raise the price of labour, as a ring will raise the price of commodities; and increased mobility will help to equalize wage-rates for the same kind of labour, as it will prices, and to reduce the fluctuations arising from local changes in demand. In all this, individual labourers, like individual producers of commodities, find themselves unequally advantaged or disadvantaged through the interplay of the reciprocal wants and other influences that determine from time to time the economic value of their labour. Even the uniform wage-rate is of unequal subjective value to different men, like the uniform price of a commodity. For, just as, when butter is at 2s. 6d. a pound, a dairy farmer who could carry on comfortably at 2s. 4d. is more benefited than one who could not get along so comfortably below 2s. 7d., so a wage of £3 a week means something very different to two labourers with different health or family commitments.

To many it seems false to regard the value of labour as determined in the way here stated, because they think it implies that the labourer is regarded as a mere useful commodity, a productive instrument like a plough or a horse. Since he is not that, they argue that a theory of the value of his labour must be false which proceeds

as if he were : false, and perhaps also wicked. But there is nothing really inconsistent with the dignity of man in saying that his labour has value in exchange only because it is wanted, and none if it is not wanted. Why is the broken voice of a street singer of less value than that of a prima donna, if not because men want to hear the one sing, and not to hear the other ? The street singer may be the better in all those matters which make the dignity of man or woman, but that does not make the singing more worth listening to. A Trade Board may fix the wages of an industry at a figure which it thinks the lowest that the workers ought to have ; but if the public do not think the goods produced are worth the price necessary to pay these wages, it is of no use to say that the labour was worth it. The public cannot be compelled to buy at that price, where there is the alternative of doing without ; and the needs of the worker no more give to his labour upon goods which are not wanted a higher value than the demand for the goods will carry, than they would give any value to it at all, if it were spent on the wholly useless task of digging a hole and filling it in again. That the price of the goods also covers something for undertaker's profit and interest on capital does not affect the argument, since, if these were eliminated, there would still be cases, as with small independent hand-workers, where the value of the product was less than would afford a decent living to the workers. Trade Board awards and legislation may be effective up to a point in raising wages, just as combinations among workmen may be ; both alter the conditions under which an industry must be carried on, if carried on at all. But whether it will be carried

on under the altered conditions must, unless we are to replace freedom of choice by a complete industrial regimentation, depend on the willingness of the public to buy at the price which the altered conditions make necessary. It is the relative importance attached by different men to different goods and services, as elements in their well-being, which fixes the exchange-relations of goods and services, i.e. which gives them their respective degrees of exchange-value. To shut one's eyes to this fact, because one would like the values of all products of labour to be such as would bring to the labourers an income as great as their needs, is quite unhelpful, and only leads to confusion of thought where clearness of thought is more than usually necessary. Economic value is a matter of economics, not of ethics. That anything is worth £1—be it a material thing, or so many hours' labour—means that others will deliver in exchange for it their power to get so much of any other thing as £1 will fetch; and if they will not, there is no more to be said than that it is not worth £1. It is beside the point to say that it ought to be.

Nevertheless the interest which the theory of value excites is due to men's concern with what ought to be, and to their conviction that, somehow or other, the economic arrangements of society ought to be very different to what they are. And they are attracted by a doctrine which tells them that the true money-value of labour can be ascertained without regard to the considerations which, in the damnably unsatisfactory structure of society to-day, fix its money-price. It is, therefore, worth while to ask in what sense it can properly be said either that the price of a commodity, or the

payment for a service (whether we call it wage or not) is the correct or just price or payment.

There is one sense in which it is perfectly proper to speak of a just or unjust price or wage. When once a rule has been agreed upon, to govern all cases of a certain sort, it is unjust to depart from it. A retail tradesman who announces that his prices are fixed acts unjustly if he charges an ignorant or wealthy customer more than the regular price. An employer who, whether voluntarily or under legal direction, engages to pay his workmen so much per hour, acts unjustly if he pays less. In distribution, justice is proceeding according to the recognized rule. But as soon as the rule fails, or its application or interpretation is doubtful, the propriety of a charge of injustice begins to be doubtful also.

Thus we should not think it unjust in a dairyman to raise the price of butter when supplies are short. But would it be unjust to sell an inferior quality? If he made no profession of still selling the same, we should probably say not; but what if he blended it with margarine? It is for customers to find out who sells the best butter; why not also, who sells the purest? John Bright, as is well known, objected to legislative interference with adulteration on the ground that adulteration was no more than a form of competition; and he was an honest man. But the legislature has since enacted that margarine is not to be sold except under its own name, and now our dairyman would certainly be acting unjustly. That, however, is only certain because the rule is clear. Where it is not clear, there will always be disputed cases. A railway would act unjustly which

charged different rates for the same service on no general principle, and out of favouritism to particular consigners; but the differential rates of which traders sometimes complain are based upon an acknowledged principle, and, whether or not unwise or contrary to public policy, are not unjust: as, for example, when lower rates are quoted for conveying the same goods between two ports than between one port and some inland station on the way to the other. For at the lower rates the goods more than cover the cost of their haulage, though contributing less *pro rata* to the general charges of the line; and it therefore pays the company, which must keep its service running for the sake of places which cannot be reached by water, to take them at these rates rather than to let them go round by sea. Single market-prices again are unequally favourable to different traders; but because they are settled not by favouritism but on a principle, they are not unjust.

And so it is with wages. The truck system, while legal, if not contrary to any explicit or implicit undertaking by the employer, was not unjust, however harmful. If an employer owned a public-house just outside his works which tempted his workmen to turn in on pay-day, he would act immorally, but not unjustly. Always, if there is injustice, it should be possible to appeal to the rule that is infringed. The rule may be one that has not yet gained general acceptance; but we must be prepared to say that it ought to be acted on, if we call a particular act unjust for not conforming to it. Thus, unless we hold generally that men and women ought to be paid at equal rates who undertake the same work, we cannot say that a particular woman is treated

unjustly who is paid less than a man ; and even so, it is difficult in the absence of any law to that effect, to sustain a charge of injustice, when the paying authority announces a principle of unequal payment.

Disputes, indeed, arise about the justice or injustice of rules themselves ; and when it is possible to appeal to a more general rule, by conformity to which the rule in dispute can be defended or rejected, rules, no less than particular actions, may be called just and unjust. But when this is not possible, and the rule is ultimate, it would be better to call it right or wrong, good or bad, than just or unjust. That equals should be treated equally is not so much a just rule as a statement of the nature of justice ; it means that we act justly if, when there is a rule that ought to be applied, we treat according to it the cases which it covers. But we cannot deduce from this formula that men and women, undertaking the same work, ought to be equally remunerated, or that every adult should have one vote and no more. Those may be good rules or bad rules. If or where they are good, we ought to adopt them ; and if we adopt them, it is unjust to apply them unequally. But what is not a breach of a rule which ought to be acted on is not unjust.

If all this is true, a price or a wage is not unjust where no rule can be produced which it infringes. And, in the absence of definite agreements or enactments, we can produce no rule of universal application, to which wage-payments ought to conform. That a wage should contain, or purchase what contains, an amount of labour equal to that which it is paid for, is a rule which, though implied by Marx's theory, cannot be successfully

defended. That it should be a living wage is a rule of doubtful interpretation; and when it has been interpreted in terms of money, we shall have a figure less than some men's and more than other men's labour is economically worth. How can it be unjust not to pay a man for his labour what it is not worth? If, in spite of this fact, he ought to have the money, it cannot be said that it ought to be given him by an employer who will be out of pocket by giving it; it will be the community that is responsible, and the payment will then cease to be a wage.

It may, indeed, be said that the community *is* really responsible; that we are all partners in the total social task of production, or, if some of us are at present idle, at any rate we all ought to be, and ought equally to be partners in the consumption of what is produced; that the present system, whereby the payment to be made to different producers is left to be decided by the interplay of many private valuations, without any general consideration of what is fair or desirable, and of what will actually result from leaving it to be so decided, is indefensible in theory, and has failed hopelessly in practice.

It has in many ways failed so badly that one may be tempted to think it theoretically unsound. But in what point is it thus unsound? That a man should count the possession of one thing more important to him than the possession of another; and that men should not agree either with one other, or each always with himself, in their orders of preference—this is neither right nor wrong, but merely inevitable. And out of this it comes that the exchange-values are

as we find them. In this there is no more anything theoretically unsound than in the peculiarities of the Indian rainfall. But these, none the less, cause distress and famine, and have made some districts desert. And, engineers have restored fertility to parts of the desert, and equalized in a measure the irregularities of different monsoons, by dams that impound the water and sluices that distribute it. So we may endeavour to redress the inequalities of fortune which the play of subjective valuations creates; the problem is like an engineering problem, how to do it most safely and best. Such a problem is not helped by recriminations nor by vague sonorous phrases.

We may agree that we are all partners in the social task of production; but it does not follow that we all contribute equally. The problem is one of distribution; and distribution, if it is not to settle itself, requires a rule. What is our rule to be, and how is it to be enforced, and what will be the effects of applying it? If, because we are all partners in the task, we are to share in the product equally, there must be a central authority into whose hands the control of the product passes, and which orders its distribution. But will men be satisfied with the rule of equal distribution? Mr. G. D. H. Cole is in favour of it. That piece-work, or 'payment by results, possesses some superior equity over time-work, in that it does secure that a worker who produces more will get more money', seems to him 'pure capitalist morality. Why', he asks, 'should a man who produces more be paid more? It is true that workmen have sometimes agreed that what they want is a larger share in the wealth they produce, and the elimination of

surplus value at present pocketed by the capitalist has been confused with the appropriation of this value by each individual productive worker or group of workers. But surely what we are out for is not that each man should secure in full the fruit of his own labour, but that the fruits of the common labour should be equitably shared among all. Bernard Shaw's argument for equality of income seems to the present writer to be convincing when it is clearly understood. It is often misunderstood and misdescribed as a plea for equality of "remuneration", whereas Bernard Shaw's whole point is that the idea of remuneration is in itself wrong, that people ought not to be remunerated for the work which they do, but ought to be assured of an income by means of their citizenship, or by virtue of the fact that they are human beings. Equality of income (not remuneration) is not indeed an ideal; but it is the nearest working approximation to an ideal sharing of the wealth of the community'.¹

This passage raises several points of interest. It is perfectly true that to secure the 'right to the whole produce of labour', in the commonly understood sense of abolishing rent and interest, and any manager's profit as distinct from a stipulated salary, would in no way solve the problem of distributing the produce among the labourers. The principle of that alleged right, as Anton Menger says,² is accepted by Socialists in its negative function, as a repudiation of unearned increment; though we have seen that there are plenty of

¹ *The Payment of Wages*, pp. 112-13, Fabian Research Dept., 1919.

² *The Right to the Whole Produce of Labour*, E.T., p. 160.

forms in which unearned increment arises under a non-capitalistic system; indeed, so long as the value to a man of what he receives in exchange for his own labour or produce fluctuates through causes independent of himself, there will be increment, and decrement also, which he has not earned. It is the negative side of the principle, as Menger goes on to point out, which makes it, like 'the idea of political equality in the French revolution and its offshoots' of such 'immense revolutionary force'; for 'the masses are most easily united on negations'. When it comes to positive proposals differences emerge, but this formula 'contains no positive principle for the reconstruction of an economic order'.

But is it also true that an equal is the most equitable distribution of the wealth of the community? That the idea of remuneration is in itself wrong is a lofty sentiment, because the remuneration intended is in the form of material goods, and lofty minds really rate these as negligible in comparison with the goods of the spirit. But, assuming that such a sentiment may come to be shared widely enough for a policy based on it to content the generality of men, are we sure that the idea of remuneration in every form is wrong? Ought we equally to approve a world in which the highest elements in the happiness of a rational being fall to the evil rather than, or not less than, to the good, and one in which they fall rather to the good? It has been argued by some that to be good is itself, or brings with it, what is highest in the happiness of a rational being, and that therefore the suggested dissociation cannot occur; and by others, that the notion of merit is fundamentally

indefensible. These are questions too large to be discussed further here. At any rate most will admit that *if* elevation of character is not of itself the whole of a man's welfare, and *if* it were possible by some act of distribution to give to men welfare in different degrees, the higher degree should go to those of higher character. And if this is admitted, it will follow that what makes the doctrine, that the idea of remuneration is in itself wrong, seem true or attractive, must be that the remuneration meant is in goods indifferent or negligible. And if that is so, is it of such moment that they should be shared equally? If any one thinks an equal distribution the nearest working approximation to an ideal sharing of them, is not this rather a sign that he does not count them indifferent? It may well be that some avocations, not useless to the community, require a larger share of such goods than others; and that the fault of our present condition is not the inequality but the extent of the inequality. Variety makes life more interesting, and if we are not jealous, we can perfectly well wish to see some big houses and fine parks, without wishing ourselves to own them. There is in this no disregard of the interests of the many, unless it can be shown that such privileges are irreconcilable with a decent standard of life for all. Are there to be no beautiful and costly things made? Or are they all to decorate churches or public halls, or to stand in the cold air of our museums? The arts of life would surely suffer if it were so.

Let us look again at Mr. Cole's contention. Does it follow, because 'people ought to be assured of an income by virtue of their citizenship, or by virtue of the fact that they are human beings', that therefore

incomes ought to be equal. ' If a man will not work, neither shall he eat ' is a saying that should perhaps be understood as pointing out rather what happens in some economic circumstances than what we ought to aim at. But do we really think that if a man will not work, he ought still to share equally with those who will ? Why, because all are citizens, or all human beings, ought all to have equal incomes ? Surely it is emphatically not an ideal ; and what ground have we for thinking it the nearest working approximation ? It is perhaps no more than a refuge from the difficulty of finding another satisfactory principle. In the same way we take refuge in the rule, *One man one vote*. It cannot be shown that for the difficult task of determining the policy and administration of a city or state, or choosing the most fit persons to determine them, every man is as well qualified as his neighbour by intelligence and disinterestedness. But because we think we can find no criterion of better fitness, and we do know that Dick and his neighbour are equally men, we fall back upon the rule that those who are equally men shall share equally in voting power. Yet it is difficult to justify the principle as something self-evidently right and proper. Most who have experience of the character and mental habits of very backward races would hesitate to apply it to them ; and in a mixed population like that of South Africa, or the Southern States of the American Union, they would be prepared so to modify it that mere numbers did not swamp the polls. We must look to the effects of such institutions. And so it is with the principle of the equal distribution of wealth.

In rejecting the claim that income should be propor-

tioned to work done, Mr. Cole admits that unearned wealth is not wrong as such and universally ; and indeed we all admit it in certain cases ; for the sick and impotent do not earn what they consume, and yet it is not judged wrong that they should live without labour. We may ask for some special reason to justify living without labour ; but mere citizenship is not a special reason. If, indeed, all systems are condemned which leave the distribution of wealth to settle itself through the interplay of private enterprise and action, and the State is made the sole distributor, then the principle of equal distribution acquires more plausibility. Differential treatment by the State is always invidious unless some very clear rule can be formulated for it, as we noticed in the instance of voting-power. But we must still ask what are likely to be the consequences of alternative systems proposed, unless it can be shown that men ought to have equal incomes, whatever the consequences. It is very difficult to believe that, while human nature remains at all as we know it, men assured of an income equal to their neighbours' on the ground of their common citizenship will work as well and produce as much as if they could earn more by working harder. If all had reached that level of public spirit, they would care little about equality of incomes, unless indeed they resented inequality as injustice ; but to do that reintroduces the idea of a right in the matter, and so the need to show when, and why, men's rights are equal. On the other hand, with men as we know them, some very definite gains attend the existence of a leisured class. Many of them have done work for the encouragement of art and letters, or as scholars and

explorers, or even through the unforeseen developments of hobbies, which it is by no means clear would have been done, if the selection of those who were to be subsidized for the undertaking of it had been left to the State. Is it so plainly impossible to preserve the advantages, while diminishing the evils, which spring from a system generating its own inequalities, that we must fall back on State-distribution, and the rule of equal incomes?

Any one who approves that rule will be wise not to attempt to seek economic reasons for calling it just. Economically speaking, there is no just wage or reward of labour. Justice and injustice arise where there is a distributor and a rule of distribution. Economic conditions may make a rule accepted; but they do not make it a just rule, and they do not make a breach of it unjust; so long as it is accepted, a breach of it is unjust, but economics has nothing to do with this injustice. But it might be possible to find a rule that was morally right, and to which therefore we ought so far as possible to adjust the distributions which through mere economic causes come about differently.

Yet when we try to find any single clear rule of right for the distribution of wealth, the difficulties seem insuperable. The principle of equal shares, which we have been considering, certainly does not commend itself generally. Mr. J. H. Thomas, when it was proposed to establish a *minimum* wage for railway workers, said that it would be grossly unfair to do so, unless the pay of the higher grades were increased proportionately.¹ Mr. Frank Hodges desired proposals for the mining industry which will, besides encouraging production and

¹ *The Times*, 15 Sept. 1913.

cheapening coal, 'provide against the wages of the workmen falling below a figure commensurate with the skill and responsibility required in a miner's work, and which will keep him and his family in comfort and decency'.¹ Here there are two quite different rules suggested. One is that of the 'living wage', according to a standard not definitely indicated. The other, though difficult to understand, would clearly assign different rates to different callings. But what is meant by saying that any particular wage is commensurate with the skill and responsibility required in a particular calling? If I knew what wage was proper for a farm-labourer, and if I knew the ratio between the skill and responsibility required in his work and those required in a miner's, then I might say what wage was proper for a miner. But it seems difficult to grade callings except in a rough and rather arbitrary fashion, and impossible to show that a particular wage is proper to a particular calling. We might get some agreement on the first point, and thence determine the proper ratio between the wages of different occupations; but Mr. Hodges's formula is absolutely useless for determining their proper positive amounts. Other rules equally break down. 'To each according to his needs, from each according to his abilities'; but who is to judge of each man's needs, and what if a man has not cultivated his abilities, or fails to produce work according thereto? 'Fair shares to labour, capital and talent'; but why is Fourier's proportion, 5 : 4 : 3, fair? How can we show that *any* particular proportion is fair? and considering that businesses employing the same capital may employ very different numbers of workmen,

¹ *The Times*, 1 June 1921.

could any constant proportion be fair? 'The greatest happiness of the greatest number'; Bentham proposed to interpret this by a rule of equal distribution: 'Every one to count for one and none for more than one.' But he presently found that he now had two rules which might conflict in their application; for (supposing that we can intelligently hold the happinesses enjoyed by the various members of a society to be an aggregate, capable of being increased or diminished) we might conceivably increase the aggregate happiness by attending to the interests of a smaller number. Are we to care more about increasing the total, or equalizing the dividend? 'Equality of opportunity' is another principle suggested. It is impossible that this ideal should be completely realized in a large and complicated society by any measures short of taking all children away from their homes and bringing them up together in State nurseries and institutions. But let us assume that something less than this is meant; up to what age are the opportunities provided to be equal? and after that age are men to take the consequences of their actions and mistakes? If so, economic forces will assert themselves as they do now. Or shall we say that men should be rewarded in proportion to their ability, or to others' need of their services? 'With all due respect to your trade,' said Mr. James Larkin to a pattern-maker during cross-examination, at the time of the Dublin Dock Strike, 'I am just as much entitled to 42s. a week as a pattern-maker is. I am just as able a man, though I am not working in the same sphere of activity, and you cannot work without me, for you cannot make a pattern without I (a transport-worker) bring the stuff to you.'

What principle had Mr. Larkin in mind? Supposing that he is as able a man, is so able a man needed for transport work? and if not, ought the wage to be fixed with regard to the work or to the worker? Again, does he base his claim to receive the same wage as a pattern-maker on his equal ability, or on being equally indispensable? Both principles cannot be sound, since they may easily conflict. The ordinary economic methods, from which we are trying to get away, would soon determine whether he was indispensable. Is he not confusing the indispensability of transport with that of a particular transport-worker? Again, in our complex industrial organization, many operatives are indispensable to a single result; are those who performed them therefore to be remunerated equally? Mining, transport, smelting, pattern-making, puddling, forging, fitting may all be indispensable to the finished tool. Ought each worker of each kind to have equal wages? but it is the operation, not any particular operator, that is indispensable. Ought the total wage-charge therefore to be the same for each kind of operation? Then those operators will be paid most, of whose kind the smallest number is needed. There is really no tenable rule indicated. And it is surely a not unimportant general principle, that though, where a number of co-operant factors are indispensable to a single result, you cannot determine how much each contributes to it¹, yet to be equally indispensable is not to be equal. And even if it were, the appeal to indispensability, as a ground for demanding a certain wage or pay, is an

¹ And therefore it is impossible to say what is the whole produce of any given man's labour in modern industry.

appeal to others' need of the services rendered; and we have really reverted to the mode of determining economic value, for which we were trying to substitute something better. This mode has prevailed not only since the industrial revolution, but wherever there have been markets and free exchange. It springs from the valuations which men put on different things, and these are neither just nor unjust. It works without purpose, but not without laws. It does not result in a distribution of incomes equal to the values which each individual creates, but is not to be condemned on that account; for it is improper to speak of the value which each individual creates, since value is primarily created by the want felt for things, not by the labour spent on them; and though men's labours, as well as the operations of nature, are generally required in order to render things such as we want them, it is generally impossible to estimate quantitatively the share of any particular worker in the production of the physical changes that contribute to the existence of a finished product.

If then we condemn this mode of determining economic value, it must be for some other fault in its influence upon the distribution of income than its failure to perform the impossible and really meaningless task of making that distribution just. And that fault is, that it makes some very rich, and others very poor. But it has not done this in the same degree in all ages. And since it works according to certain laws, the inference is that something different in the facts of the situation makes the results different. Now the value of anything to a man is its marginal value, i.e. it depends on the importance of the want that would go unsatisfied for

the lack of it ; this may be much less than the importance of the want that the thing would satisfy. But some men ' have no margin '—the want which the thing would satisfy and that which would go unsatisfied without it are the same ; and such men are at a disadvantage in bargaining. If the want is urgent, the price can be forced up against them. Except so far as custom or law prevails, all exchanges are effected under the pressure of opposite wants, and such forced exchanges exhibit in principle nothing new. But they result in a more unequal distribution of the material goods, with which we satisfy our various wants as they occur. The change therefore required, if a system of free exchange based on men's subjective valuations is to work more equally, is that there should be fewer forced bargains, i. e. that men's bargaining positions should be more equal. They cannot be so equal that the market-price will make all transactions seem equally profitable to every one concerned. But they might be very much more equal than they are. This would be effected not by concentrating the control of property in the hands of states and municipalities, but by dividing it ; by having not no capitalists, but more. No one pretends that capital is unnecessary ; and we have seen that the theory which derives a capitalist's profits from the surplus-value, which labourers have created and he appropriates, is a false analysis of the facts of value. But under the present capitalistic system of industry a very large body of men have nothing to live from, if they do not get employed at a wage, and are therefore at a disadvantage in bargaining. One remedy suggested for this is co-operative production, where those engaged

in production themselves own the plant and materials. The success of this is often doubted, because of the rarity of high business ability in direction and control—ability which at present often brings its owner large profits, of the nature not of interest, but of the gain which comes to those to whom a market-price is specially advantageous: though such profits become in turn a capital which brings further gain by way of interest, and the vicious concentration of wealth continues. It is thought that in co-operative production men possessing these qualities would not so readily find their way to the management. But apart from this, it is pointed out that the co-operative societies would act as bargaining units themselves, and the resulting prices would work as unequally as prices do now. This danger seems to be inseparable from any system under which prices are left to be fixed by the play of subjective valuations. A land of peasant proprietors and peasant industries would not be free from it. Nor would a land where syndicates of workmen owned, like huge trusts or combines, their several productive stocks. If there was a market for the exchange of their products, prices must be formed as they are formed in markets now, and with the variations in men's tastes, in the bounty of different harvests, in the success displayed in improving this or that process of manufacture, or in the degree to which different commodities admitted of being produced by advanced industrial methods, these prices would give to the members of one syndicate a greater advantage than to those of another. Unless some central authority is to settle how much of one thing may be exchanged for how much of another, the producers of different

commodities must find themselves getting different quantities from time to time of what they all want for what they severally produce: and the most we can hope for is to make such arrangements, that these fluctuations shall be as little as possible, by equalizing as far as possible men's bargaining power.

This being no panacea, it is not wonderful that those on whom the evils of the present system press most should wish to substitute for the purposeless working of economic forces the consciously directed action of the State; or, if not of the State, at least of some single authority. But so soon as there is conscious direction, a principle is needed, and what principle is to be taken? It has been suggested that men should be paid for their work in labour cheques, and goods be priced in terms of the labour expended on them. On a small scale this has actually been put in practice for a time. But it has no semblance of justice except what is derived from the false doctrine that value is an absolute quality embodied in things by labour. That doctrine being set aside, how are we to defend it? It is one thing to say that every man ought to do some good in his generation, and otherwise does not deserve his share of material goods; it is quite another to say that justice requires his share of those goods to be in proportion to the hours of labour which he exerts. Many lead valuable lives, who could not show a good time-sheet—poets, mystics, antiquarians, explorers, mathematicians. No doubt some official could settle their rate of pay in the currency of labour cheques; and could also settle a table of equivalents for labours of different kinds, if it were thought that a mere time-rate was not satisfactory. But the settlement must be

arbitrary ; there is no principle to go upon. And if certain goods, after being duly priced in units of labour-time, ceased to be desired, are they to be forced on purchasers at the old prices, and if so, how ? or will some official reduce them till they go off, and let the play of subjective valuation begin again ? Further, this method of pricing cannot be applied to foreign trade, which, if unequal gains are to be prevented from reappearing, must all be conducted by the State ; and the State will have to act arbitrarily in settling the prices at which what it imports shall be sold here.

Theoretically, this and other communist systems are not inconceivable ; but they cannot work in practice, unless men are content to work under them. The two great evils of the industrial system to-day are, that incomes are so terribly unequal, and that so many feel their lives are spent in ways they have no share in controlling. Communism might make incomes more equal by a great destruction of wealth, but that is not what is wanted. It could, however, only otherwise bring them towards equality by great concentration of control. This concentration of control would in effect mean that the officials running the machine would own the wealth of the community ; for the community is too large for ordinary citizens to have any real part in direction or administration. If we assume that these officials take no advantage of their position to enrich themselves, they will still control the lives of the citizens by their control of production ; and the second evil mentioned will be intensified rather than removed.¹ Only by such

¹ The truth of this seems to have been illustrated in Russia under the Bolshevik rule.

regimentation as that of an army will the scheme work ; and in an army the private soldier does not feel that he helps to direct his own life. In the communist army the officers might be elected ; but unless they still receive implicit obedience the system will break down. Even under the pressure of common interest in defeating the enemy, and common fear of being defeated by him, we know how much jealousy and dissatisfaction the distribution of promotion and appointments in an army creates. What reason is there to think that the vastly more difficult task of appointing men to their jobs in a communist state will be discharged so as to give better satisfaction ? All complaints will be against one government, which will for ever be making innumerable decisions that with the best intentions cannot but be arbitrary and often wrong. This is not the way to get contentment and willing work.

At present a justified discontent with the unequal rewards men get for their labours makes them look for a principle of just distribution and an organization of society that will put it into practice. Their desire for it seduces them into thinking that they have found the principle, and may therefore do all things to establish the organization. But if the character of justice is being claimed for a principle to which it does not belong, men's efforts at reform are likely to be misdirected. Partial considerations will obtain an influence far greater than they should exercise, and very likely disastrous. This perhaps happened in the last century, when the ' Manchester School ' was at the height of its influence. Economists rightly held that the exchange-value of a thing was its power to get so much of other things, and

in practice particularly of money, in exchange ; and as the exchange-value of labour is fixed that way, they thought that the system by which the labourer received the exchange-value of his labour was a right system. The notion that this was just induced good men sometimes to support what otherwise they would have condemned. To-day many falsely believe that the value of a thing is created by and proportionate to the labour spent on it ; and the notion that it is just for men to be remunerated in proportion to their labour leads them to condemn as unjust what otherwise they might be ready to amend and retain. Men long for simple principles to guide them in the infinite complexities of life, and when they think they have found one, are impatient with those who question it. But in reality there is no simple or single principle by which to determine a distribution of material goods that can be called just, or to fix a just wage. There are certain acts which can be called unjust, when the party paying does not really give what he has undertaken or is required by law to give, or when he takes an advantage which by the general custom of trade or business, or the general understanding prevailing in the community, he would not take. And when we have settled what ought to be, we may call institutions which conflict with this unjust. But it is not easy in detail to settle what ought to be. For economically, value is not created by labour, and labour is not all of equal value for equal times ; and morally, hours of labour are not the only standard by which to measure men's desert of material goods, any more than material goods are the only medium in which to measure what they deserve. Because two men

have worked equally hard for equally long, shall we approve a system by which they are equally well off, if one is quarrelsome, spiteful and cruel, and the other makes all about him happier? Surely, if it is a question of ethics, labour-time is an absurd measure of men's right to material well-being. It is true that we cannot hope to devise a system which will make material well-being proportionate to men's deserving; but that is no reason for making it proportionate to the length of their labour. But a wage which cannot properly be called just or unjust may be oppressive, or mean, or cruel; and a system may deserve these reproaches, for the effects which it produces and the motives which lead men nevertheless to maintain it. Our task is to devise a system which will prevent in the greatest degree attainable the evils from which we suffer. But Marx's theory of value will not help us to do this, and the doctrine of the right to the whole produce of labour does not tell us who produces how much. The principle of the living wage points to a better ideal. It does not involve the claim to equal shares of wealth, nor even that we should abolish altogether the economically unproductive class (which is by no means identical with the socially mischievous or useless). But except through the risky business of trial, we cannot always know what wage is economically possible; and a living wage means one that makes it possible to maintain a certain standard of life, and what the *minimum* standard ought to be is not self-evident. We may admire the spirit which induces strikers to endure immediate suffering and want for the sake of the prospect of a higher standard of life; but the further effects of raising the price of their labour, and its

repercussion upon others in all directions, are obscure, and often as disastrous to those who have not deserved it as are the causes of the strikers' troubles. If in view of all this we wish to make the State our Providence, let us not delude ourselves by thinking that it is sure to be wiser than Governments are now, or that it will have any rule of justice to light its course. It will have to do what seems to it, or to those who administer it, on the whole most desirable, in face of opposition from men still ready to endure the evils of present opposition for the sake of something they think more advantageous or more just, and under the guidance of a number of maxims none of them absolute, and all capable of conflicting. Such a conclusion may displease ; but it is of no use to pretend that facts are other than they are.

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